



# UMZIMVUBU

— LOCAL MUNICIPALITY —

Umzimvubu Local Municipality  
Annual financial statements  
for the year ended 30 June 2018

# Umzimvubu Local Municipality

(Registration number EC442)

Annual Financial Statements for the year ended 30 June 2018

## General Information

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### Legal form of entity

Category B Municipality which operates in accordance with Chapter 7 of the Constitution of South Africa

### Nature of business and principal activities

Umzimvubu Municipality

The municipality is a local government institution in KwaBhaca, Eastern Cape Province, and is one of the local municipalities under the jurisdiction of the Alfred Nzo District Municipality. The addresses of its registered office and principal place of business are disclosed under "General Information" included in the Annual Financial Statements and in the introduction of the Annual Report. The principal activities of the municipality are disclosed in the Annual Report and are prescribed by the Municipal Finance Management Act (MFMA).

### Mayoral committee

#### Councillors

#### Ward

1 F.J Hem  
2 M. Ntsevu  
3 M.V. Nkqayi  
4 N.V. Nomaqaga  
5 S. Sifolo  
6 N.C. Tshayisa  
7 S.S. Dangisa  
8 T. Sokhanyile  
9 M. Mqulwane  
10 P. Makhinzi  
11 N. Gogela  
12 G.V. Lugongolo  
13 C.L. Noqhakala  
14 T.V. Hlazo  
15 C.N. Mnyaiza  
16 B. Majalamba  
17 S. Mankanku  
18 A. Mgangatho  
19 E.N. Ngalonkulu-Lebelo  
20 T. Nomkuca  
21 F.N. Ngonyolo  
22 S.O. Madlanga  
23 N.H. Kolweni  
24 M. Jolobe  
25 A.N. Zongwana  
26. M. Tuku  
27 N.S. Soldat

#### Proportional

P.B. Mabhengu  
S.K. Mnukwa  
N.G. Mdzinwa  
H.M. Ngqasa  
M. Mataka  
A.N. Garane  
U.G. Makanda  
N. Sonyabashi  
T.A. Mambi  
P.K. Thingathinga  
L.S. Maqhashalala  
N. Ntshayisa  
L.L. Nqatsha  
N.N. Gcadinja  
H.N. Dandala  
S.A.N. Cekeshe  
S.P. Myingwa  
X. Jona  
N.A. Mantshongo  
F.P. Sontsi  
M. Ramabina  
S.Sqiza  
T.Nstalaze  
M. Maliwa  
M.Hlankela  
T. Ndara  
-

### Grading of local authority

Grade 3

### Accounting Officer

GPT Nota

### Auditors

Auditor-General of South Africa  
Registered Auditors

### Registration number

EC 442

### Jurisdiction

Greater Umzimvubu area which includes:  
Kwa-Bhaca, Ema-Xesibeni and various rural areas

### Chief Finance Officer (CFO)

XN Venn

### Registered office

ERF 813

# Umzimvubu Local Municipality

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## General Information

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	MAIN STREET KWABHACA 5090
<b>Bankers</b>	FIRST NATIONAL BANK
<b>Attorneys</b>	Various

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COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
IFRS	International Financial Reporting Standards
IGRAP	Interpretations of the Standards of Generally Recognised Accounting Practise

# Umzimvubu Local Municipality

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## Responsibilities and Approval

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The Accounting Officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statement and related financial information included in this report. It is the responsibility of the Accounting Officer to ensure that the annual financial statement fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statement and was given unrestricted access to all financial records and related data.

The annual financial statement have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statement are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgments and estimates.

The Accounting Officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the Accounting Officer to meet these responsibilities, the sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The Accounting Officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The Accounting Officer has reviewed the municipality's cash flow forecast for the year to 30 June 2019 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The Accounting Officer is primarily responsible for the financial affairs of the municipality.

The Accounting Officer certifies that the salaries, allowances and benefits of the councillors are disclosed in the notes to the financial statements are within the upper limits of the framework envisaged by section 219 of the Constitution read in conjunction with the Remuneration of Public Office Bearers and Minister of Provincial and Local Government determination in accordance with this Act.

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statement.

I am responsible for the preparation of these annual financial statement set out on pages 5 to 80, in terms of Section 126(1) of the Municipal Finance Management Act and which I have signed on behalf of the Municipality.

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**GPT Nota**  
**Accounting Officer**

**2018/08/31**

# Umzimvubu Local Municipality

(Registration number EC442)

Annual Financial Statements for the year ended 30 June 2018

## Report of the Chief Financial Officer

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### Financial Analysis Overview

It gives me great pleasure to present the Annual Financial Statements of Umzimvubu Local Municipality at 30 June 2018.

These Annual Financial Statements have been prepared in accordance with Generally Recognised Accounting Practise (GRAP), issued by the Accounting Standards Board (ASB) in accordance with Section 122(3) of the Municipal Finance Management Act, (Act no. 56 of 20013). The standards and pronouncements that form the GRAP Reporting Framework for the 2017/18 financial period is set out in Directive 5 issued by the ASB on 11 March 2009.

### mSCOA Implementation

The Municipal Regulations on Standard Chart of Accounts promulgated in terms of Government Gazette 37577 dated 22 April 2014 apply to all municipalities and municipal entities and became effective from 1 July 2017.

The main objective of this regulation is to provide for a national standard in respect of uniform recording and classification of municipal budget and financial information at a transaction level by prescribing a standard chart of accounts for municipalities and municipal entities which:

- a) are aligned to the budget formats and accounting standards prescribed for municipalities and municipal entities and with the standard chart of accounts for national and provincial government; and
- b) enable uniform information sets recorded in terms of national norms and standards across the whole of government for the purposes of national policy coordination and reporting, benchmarking and performance measurement in the local government sphere.

The impact of this mSCOA regulations definitely affected the municipality's current business processes; transacting and reporting requirements. The municipality successfully implemented mSCOA from 1 July 2017.

### Key Financial Indicators

The following key financial indicators are self-explanatory. The analysis of these indicators suggest operational activities of the institution are well within acceptable norms and indicate good governance of the funds of the municipality.

Liquidity ratio:

Current assets : Current Liabilities = 3,47 (2017: 3,46)

Acid test ratio:

(Current assets - inventories) : Current Liabilities = 3,09 (2017: 3,07)

Expenditure Management:

Payables : Cash and cash equivalents = 45% (2017: 36%)

### Declaration

I declare that, to the best of my knowledge, the information presented in these Annual Financial Statements present fairly in all material aspects the Financial Performance, Position and Cash Flows of Umzimvubu Local Municipality

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**Xoliswa Venn**  
**Chief Financial Officer**

# Umzimvubu Local Municipality

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Annual Financial Statements for the year ended 30 June 2018

## Statement of Financial Position as at 30 June 2018

	Notes	2018	2017 Restated*
<b>Assets</b>			
<b>Current Assets</b>			
Inventories	2	217 565	323 534
Operating lease receivable	3	5 971 779	2 427 165
Receivables from non-exchange transactions	4	17 096 648	12 376 663
VAT receivable	5	5 768 651	4 352 684
Receivables from exchange transactions	6	3 274 564	3 137 622
Cash and cash equivalents	7	47 668 725	45 932 159
		<b>79 997 932</b>	<b>68 549 827</b>
<b>Non-Current Assets</b>			
Investment property	8	141 419 623	141 419 623
Property, plant and equipment	9	1 027 313 621	1 173 706 148
Intangible assets	10	2 012 240	2 288 560
Heritage assets	11	17 719	17 719
		<b>1 170 763 203</b>	<b>1 317 432 050</b>
<b>Total Assets</b>		<b>1 250 761 135</b>	<b>1 385 981 877</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Payables from exchange transactions	12	18 907 209	14 142 215
Payables from Non-exchange Transactions	13	4 612 087	2 284 584
Employee benefit obligation	14	435 171	202 428
Unspent conditional grants and receipts	15	213 282	5 587 397
		<b>24 167 749</b>	<b>22 216 624</b>
<b>Non-Current Liabilities</b>			
Employee benefit obligation	14	1 141 663	1 201 036
Provisions	16	3 677 096	3 357 542
		<b>4 818 759</b>	<b>4 558 578</b>
<b>Total Liabilities</b>		<b>28 986 508</b>	<b>26 775 202</b>
<b>Net Assets</b>		<b>1 221 774 627</b>	<b>1 359 206 675</b>
Accumulated surplus	17	1 221 774 629	1 359 206 679

\* See Note 52

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## Statement of Financial Performance

	Notes	2018	2017 Restated*
<b>Revenue</b>			
<b>Revenue from exchange transactions</b>			
Sale of goods	18	1 071 018	615 212
Service charges	19	1 159 426	700 628
Rental of facilities and equipment	20	6 427 326	3 270 215
Interest on debtors	21	2 926 497	2 308 724
Income from Agency services	22	2 051 565	1 702 919
Licences and permits	23	2 642 793	2 385 373
Operating income	24	2 118 762	1 544 751
Interest earned - external investments	25	6 298 181	5 387 136
Actuarial gains		-	80 056
<b>Total revenue from exchange transactions</b>		<b>24 695 568</b>	<b>17 995 014</b>
<b>Revenue from non-exchange transactions</b>			
<b>Taxation revenue</b>			
Property rates	26	15 071 651	14 339 340
<b>Transfer revenue</b>			
Government grants & subsidies	27	277 335 151	239 883 865
Fines	28	1 456 324	2 262 968
<b>Total revenue from non-exchange transactions</b>		<b>293 863 126</b>	<b>256 486 173</b>
<b>Total revenue</b>		<b>318 558 694</b>	<b>274 481 187</b>
<b>Expenditure</b>			
Employee related costs	29	(65 173 469)	(59 927 181)
Remuneration of councillors	30	(17 644 239)	(15 563 284)
Depreciation and amortisation	31	(134 087 996)	(127 391 294)
Impairment losses	32	(8 742 251)	(3 603 778)
Finance costs	33	(427 034)	(396 988)
Lease rentals on operating lease	34	(709 986)	-
Material and stores	35	(2 398 663)	(193 654)
Contracted Services	36	(43 990 172)	(34 091 341)
Loss on disposal of assets and liabilities	37	(131 668 312)	(390 251)
Actuarial losses	14	(41 798)	-
Operating costs	38	(51 106 826)	(52 869 829)
<b>Total expenditure</b>		<b>(455 990 746)</b>	<b>(294 427 600)</b>
<b>Deficit for the year</b>		<b>(137 432 052)</b>	<b>(19 946 412)</b>

\* See Note 52



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## Statement of Changes in Net Assets

	Accumulated surplus	Total net assets
Opening balance as previously reported	525 702 122	525 702 122
Adjustments		
Correction of errors - note 49	853 450 964	853 450 964
<b>Restated balance at 30 June 2016</b>	<b>1 379 153 086</b>	<b>1 379 153 086</b>
Changes in net assets		
Surplus (Deficit) for the year	(19 946 411)	(19 946 411)
Total changes	(19 946 411)	(19 946 411)
<b>Restated balance at 01 July 2017</b>	<b>1 359 206 681</b>	<b>1 359 206 681</b>
Changes in net assets		
Surplus (Deficit) for the year	(137 432 052)	(137 432 052)
Total changes	(137 432 052)	(137 432 052)
<b>Balance at 30 June 2018</b>	<b>1 221 774 629</b>	<b>1 221 774 629</b>

Details on the movement of the Funds and Reserves are set out in Note 17.

Details on the prior year correction of error are disclosed in note 49.

\* See Note 52

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## Cash Flow Statement

	Note(s)	2018	2017 Restated*
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Property Rates		5 817 276	9 907 357
Government Grant and Subsidies		271 926 481	235 809 000
Service Charges		82 445	690 021
Interest income - investments		6 298 181	6 594 079
Interest from debtors		2 926 497	-
Other receipts		11 083 995	6 527 433
		<u>298 134 875</u>	<u>259 527 890</u>
<b>Payments</b>			
Employee Related Costs		(65 288 637)	(56 358 416)
Remuneration of Councillors		(17 644 239)	(15 563 284)
Finance costs		(427 034)	(783 383)
Suppliers paid		(93 950 942)	(83 732 232)
Grants and subsidies		-	(4 288 592)
		<u>(177 310 852)</u>	<u>(160 725 907)</u>
<b>Net cash flows from operating activities</b>	39	<b><u>120 824 023</u></b>	<b><u>98 801 983</u></b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	9	(118 717 357)	(107 141 080)
Proceeds from sale of property, plant and equipment	9	-	135 597
Purchase of other intangible assets	10	(370 100)	(1 216 899)
Other non cash item - Donation Library		-	9 132 683
<b>Net cash flows from investing activities</b>		<b><u>(119 087 457)</u></b>	<b><u>(99 089 699)</u></b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>1 736 566</b>	<b>(287 716)</b>
Cash and cash equivalents at the beginning of the year		45 932 158	46 219 874
<b>Cash and cash equivalents at the end of the year</b>	7	<b><u>47 668 724</u></b>	<b><u>45 932 158</u></b>

\* See Note 52

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## Statement of Comparison of Budget and Actual Amounts

	Approved budget	Adjustments/ Virements & Transfers	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Note reference
<b>Statement of Financial Performance</b>						
<b>Revenue</b>						
<b>Revenue from exchange transactions</b>						
Sale of goods	-	1 267 144	<b>1 267 144</b>	1 071 018	<b>(196 126)</b>	Note 51
Service charges	2 200 000	-	<b>2 200 000</b>	1 159 426	<b>(1 040 574)</b>	Note 51
Rental of facilities and equipment	1 489 000	3 728 256	<b>5 217 256</b>	6 427 326	<b>1 210 070</b>	Note 51
Interest received (trading)	1 640 681	1 285 816	<b>2 926 497</b>	2 926 497	-	Note 51
Agency services	-	2 280 265	<b>2 280 265</b>	2 051 565	<b>(228 700)</b>	Note 51
Licences and permits	-	4 795 896	<b>4 795 896</b>	2 642 793	<b>(2 153 103)</b>	Note 51
Gains on disposal of PPE	-	135 596	<b>135 596</b>	-	<b>(135 596)</b>	Note 51
Other revenue	2 750 000	538 452	<b>3 288 452</b>	2 118 762	<b>(1 169 690)</b>	Note 51
Interest received - investment	26 840 000	(3 874 485)	<b>22 965 515</b>	6 298 181	<b>(16 667 334)</b>	Note 51
<b>Total revenue from exchange transactions</b>	<b>34 919 681</b>	<b>10 156 940</b>	<b>45 076 621</b>	<b>24 695 568</b>	<b>(20 381 053)</b>	
<b>Revenue from non-exchange transactions</b>						
<b>Taxation revenue</b>						
Property rates	14 700 000	-	<b>14 700 000</b>	15 071 651	<b>371 651</b>	Note 51
Licences and Permits (Non-exchange)	4 796 000	-	<b>4 796 000</b>	-	<b>(4 796 000)</b>	Note 51
<b>Transfer revenue</b>						
Government grants & subsidies	251 075 000	(904 565)	<b>250 170 435</b>	179 679 586	<b>(70 490 849)</b>	Note 51
Fines, Penalties and Forfeits	2 600 000	(235 000)	<b>2 365 000</b>	1 456 324	<b>(908 676)</b>	Note 51
<b>Total revenue from non-exchange transactions</b>	<b>273 171 000</b>	<b>(1 139 565)</b>	<b>272 031 435</b>	<b>196 207 561</b>	<b>(75 823 874)</b>	
<b>Total revenue</b>	<b>308 090 681</b>	<b>9 017 375</b>	<b>317 108 056</b>	<b>220 903 129</b>	<b>(96 204 927)</b>	
<b>Expenditure</b>						
Personnel	(68 354 000)	1 404 000	<b>(66 950 000)</b>	(65 173 469)	<b>1 776 531</b>	Note 51

# Umzimvubu Local Municipality

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## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments/ Virements & Transfers	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Note reference
Remuneration of councillors	(16 144 000)	(1 510 000)	<b>(17 654 000)</b>	(17 644 239)	<b>9 761</b>	Note 51
Depreciation and amortisation	(51 000 000)	-	<b>(51 000 000)</b>	(134 087 996)	<b>(83 087 996)</b>	Note 51
Impairment loss/ Reversal of impairments	-	(4 342 838)	<b>(4 342 838)</b>	(8 742 251)	<b>(4 399 413)</b>	Note 51
Finance costs	-	(429 554)	<b>(429 554)</b>	(427 034)	<b>2 520</b>	Note 51
Debt Impairment	(5 000 000)	4 342 838	<b>(657 162)</b>	(709 986)	<b>(52 824)</b>	Note 51
Grants and subsidies paid	-	-	-	(2 398 663)	<b>(2 398 663)</b>	Note 51
Contracted Services	(62 680 213)	(3 510 000)	<b>(66 190 213)</b>	(39 890 754)	<b>26 299 459</b>	Note 51
Transfers and Subsidies	(930 000)	(3 304 675)	<b>(4 234 675)</b>	-	<b>4 234 675</b>	Note 51
Other materials	(7 765 000)	3 368 229	<b>(4 396 771)</b>	-	<b>4 396 771</b>	Note 51
General Expenses	(37 389 787)	(5 152 576)	<b>(42 542 363)</b>	(55 206 244)	<b>(12 663 881)</b>	Note 51
<b>Total expenditure</b>	<b>(249 263 000)</b>	<b>(9 134 576)</b>	<b>(258 397 576)</b>	<b>(324 280 636)</b>	<b>(65 883 060)</b>	
<b>Operating deficit</b>	<b>58 827 681</b>	<b>(117 201)</b>	<b>58 710 480</b>	<b>(103 377 507)</b>	<b>(162 087 987)</b>	
Loss on disposal of assets and liabilities	-	(92 901 424)	<b>(92 901 424)</b>	(131 668 312)	<b>(38 766 888)</b>	Note 51
Actuarial gains/losses	-	-	-	(41 798)	<b>(41 798)</b>	Note 51
Transfers and subsidies - capital (monetary allocations) (National / Provincial and District)	80 190 000	97 655 565	<b>177 845 565</b>	97 655 565	<b>(80 190 000)</b>	Note 51
	<b>80 190 000</b>	<b>4 754 141</b>	<b>84 944 141</b>	<b>(34 054 545)</b>	<b>(118 998 686)</b>	
<b>Deficit before taxation</b>	<b>139 017 681</b>	<b>4 636 940</b>	<b>143 654 621</b>	<b>(137 432 052)</b>	<b>(281 086 673)</b>	
<b>Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement</b>	<b>139 017 681</b>	<b>4 636 940</b>	<b>143 654 621</b>	<b>(137 432 052)</b>	<b>(281 086 673)</b>	

# Umzimvubu Local Municipality

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## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments/ Virements & Transfers	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Note reference
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Actual Amount comparable on comparable basis as presented in the Budget and Actual Comparative Statement:

Financial Performance:

Explanation of Variances between Approved Budget and Actual:

Reasons for Variances greater than 10% between Approved Budget and Actual Amount on the various items disclosed in the Statement of Financial Performance are explained below:

### Depreciation and amortisation

The material variance is made of the revaluation of assets.

### Loss on disposal of PPE

The material variance is made of the revaluation of assets and the completed electrification projects were transferred to Eskom

### Impairment of Assets

The material variance is made of the revaluation of assets.

## Statement of Financial Position

### Assets

#### Current Assets

Inventories	745 000	-	745 000	217 565	(527 435)	Note 51
Operating lease asset	86 000	(86 000)	-	5 971 779	5 971 779	Note 51
Receivables from exchange transactions	1 771 000	(1 771 000)	-	3 546 054	3 546 054	Note 51
Receivables from non-exchange transactions	15 177 000	-	15 177 000	17 096 648	1 919 648	Note 51
VAT receivable	-	-	-	5 768 651	5 768 651	Note 51
Cash and cash equivalents	223 113 000	-	223 113 000	47 668 725	(175 444 275)	Note 51
	<b>240 892 000</b>	<b>(1 857 000)</b>	<b>239 035 000</b>	<b>80 269 422</b>	<b>(158 765 578)</b>	

#### Non-Current Assets

Investment property	19 961 575	-	19 961 575	141 419 623	121 458 048	Note 51
Property, plant and equipment	675 047 000	-	675 047 000	1 027 313 621	352 266 621	Note 51
Intangible assets	1 724 000	-	1 724 000	2 012 240	288 240	Note 51
Heritage assets	17 719	-	17 719	17 719	-	Note 51
	<b>696 750 294</b>	<b>-</b>	<b>696 750 294</b>	<b>1 170 763 203</b>	<b>474 012 909</b>	

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## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments/ Virements & Transfers	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Note reference
<b>Total Assets</b>	<b>937 642 294</b>	<b>(1 857 000)</b>	<b>935 785 294</b>	<b>1 251 032 625</b>	<b>315 247 331</b>	
<b>Liabilities</b>						
<b>Current Liabilities</b>						
Payables from exchange transactions	10 145 900	-	<b>10 145 900</b>	18 907 209	<b>8 761 309</b>	Note 51
Taxes and transfers payable (non-exchange)	-	-	-	4 612 087	<b>4 612 087</b>	Note 51
Employee benefit obligation	131 000	(131 000)	-	435 171	<b>435 171</b>	Note 51
Unspent conditional grants and receipts	16 488 000	(16 488 000)	-	213 282	<b>213 282</b>	Note 51
	<b>26 764 900</b>	<b>(16 619 000)</b>	<b>10 145 900</b>	<b>24 167 749</b>	<b>14 021 849</b>	
<b>Non-Current Liabilities</b>						
Employee benefit obligation	-	-	-	1 141 663	<b>1 141 663</b>	Note 51
Provisions	11 021 394	-	<b>11 021 394</b>	3 677 096	<b>(7 344 298)</b>	Note 51
	<b>11 021 394</b>	<b>-</b>	<b>11 021 394</b>	<b>4 818 759</b>	<b>(6 202 635)</b>	
<b>Total Liabilities</b>	<b>37 786 294</b>	<b>(16 619 000)</b>	<b>21 167 294</b>	<b>28 986 508</b>	<b>7 819 214</b>	
<b>Net Assets</b>	<b>899 856 000</b>	<b>14 762 000</b>	<b>914 618 000</b>	<b>1 222 046 117</b>	<b>307 428 117</b>	
<b>Net Assets</b>						
<b>Net Assets Attributable to Owners of Controlling Entity</b>						
<b>Reserves</b>						
Reserve	757 722 000	9 848 000	<b>767 570 000</b>	-	<b>(767 570 000)</b>	Note 51
Accumulated surplus	142 134 000	4 914 000	<b>147 048 000</b>	1 222 046 117	<b>1 074 998 117</b>	Note 51
<b>Total Net Assets</b>	<b>899 856 000</b>	<b>14 762 000</b>	<b>914 618 000</b>	<b>1 222 046 117</b>	<b>307 428 117</b>	
<b>Cash Flow Statement</b>						
<b>Cash flows from operating activities</b>						

# Umzimvubu Local Municipality

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## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments/ Virements & Transfers	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Note reference
<b>Receipts</b>						
Property rates	14 700 000	-	<b>14 700 000</b>	7 028 030	<b>(7 671 970)</b>	
Services charges	2 200 000	-	<b>2 200 000</b>	153 062	<b>(2 046 938)</b>	
Other revenue	10 635 000	-	<b>10 635 000</b>	11 520 230	<b>885 230</b>	
Interest income	28 481 000	-	<b>28 481 000</b>	9 022 250	<b>(19 458 750)</b>	
Government - operating	251 075 000	-	<b>251 075 000</b>	271 926 481	<b>20 851 481</b>	
Government - capital	80 190 000	10 028 000	<b>90 218 000</b>	-	<b>(90 218 000)</b>	
	<b>387 281 000</b>	<b>10 028 000</b>	<b>397 309 000</b>	<b>299 650 053</b>	<b>(97 658 947)</b>	
<b>Payments</b>						
Suppliers and employees	(196 333 000)	(56 727 000)	<b>(253 060 000)</b>	(174 357 494)	<b>78 702 506</b>	
Finance costs	-	-	-	(224 606)	<b>(224 606)</b>	
Transfers and Grants	(930 000)	-	<b>(930 000)</b>	(4 780 529)	<b>(3 850 529)</b>	
	<b>(197 263 000)</b>	<b>(56 727 000)</b>	<b>(253 990 000)</b>	<b>(179 362 629)</b>	<b>74 627 371</b>	
<b>Net cash flows from operating activities</b>	<b>190 018 000</b>	<b>(46 699 000)</b>	<b>143 319 000</b>	<b>120 287 424</b>	<b>(23 031 576)</b>	
<b>Cash flows from investing activities</b>						
Capital assets	(139 020 000)	(15 038 000)	<b>(154 058 000)</b>	(118 550 857)	<b>35 507 143</b>	
Net increase/(decrease) in cash and cash equivalents	50 998 000	(61 737 000)	<b>(10 739 000)</b>	1 736 567	<b>12 475 567</b>	
Cash and cash equivalents at the beginning of the year	46 220 000	-	<b>46 220 000</b>	45 932 158	<b>(287 842)</b>	
<b>Cash and cash equivalents at the end of the year</b>	<b>97 218 000</b>	<b>(61 737 000)</b>	<b>35 481 000</b>	<b>47 668 725</b>	<b>12 187 725</b>	
<b>Reconciliation</b>						

# Umzimvubu Local Municipality

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Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1. Basis of Presentation

The Annual Financial Statements have been prepared on an Accrual Basis of accounting and are in accordance with the historical cost convention, except where indicated otherwise.

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

#### 1.1 Standards of General Recognised Accounting Practice (GRAP) and Interpretations (IGRAP) issued and effective:

GRAP 1 - Presentation of Financial Statements (as revised in 2010)  
GRAP 2 - Cash Flow Statements (as revised in 2010)  
GRAP 3 - Accounting Policies, Changes in Accounting Estimates and Errors (as revised in 2010)  
GRAP 4 - The Effects of Changes in Foreign Exchange Rates (as revised in 2010)  
GRAP 5 - Borrowing Costs (as revised in 2013)  
GRAP 6 - Consolidated and Separate Financial Statements  
GRAP 7 - Investments in Associates  
GRAP 8 - Interests in Joint Ventures  
GRAP 9 - Revenue from Exchange Transactions (as revised in 2010)  
GRAP 10 - Financial Reporting in Hyperinflationary Economies (as revised in 2010)  
GRAP 11 - Construction Contracts (as revised in 2010)  
GRAP 12 - Inventories (as revised in 2010)  
GRAP 13 - Leases (as revised in 2010)  
GRAP 14 - Events After the Reporting Date (as revised in 2010)  
GRAP 16 - Investment Property (as revised in 2010)  
GRAP 17 - Property, Plant and Equipment (as revised in 2010)  
GRAP 18 - Segment Reporting (issued in 2011)  
GRAP 19 - Provisions, Contingent Liabilities and Contingent Assets (as revised in 2010)  
GRAP 21 - Impairment of Non-cash-generating Assets  
GRAP 23 - Revenue from Non-exchange Transactions (Taxes and Transfers)  
GRAP 24 - Presentation of Budget Information in Financial Statements  
GRAP 25 - Employee Benefits  
GRAP 26 - Impairment of Cash-generating Assets  
GRAP 27 - Agriculture  
GRAP 31 - Intangible Assets  
GRAP 100 - Discontinued Operations (as revised in 2013)  
GRAP 103 - Heritage Assets  
GRAP 104 - Financial Instruments  
GRAP 105 - Transfer of Functions Between Entities Under Common Control  
GRAP 106 - Transfer of Functions Between Entities Not Under Common Control  
GRAP 107 - Mergers  
IGRAP 1 - Applying the Probability Test on Initial Recognition of Revenue (As revised in 2012)  
IGRAP 2 - Changes in Existing Decommissioning, Restoration and Similar Liabilities  
IGRAP 3 - Determining whether an Arrangement Contains a Lease  
IGRAP 4 - Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds  
IGRAP 5 - Applying the Restatement Approach under the Standard of GRAP on Financial Reporting in Hyperinflationary Economies  
IGRAP 6 - Loyalty Programmes  
IGRAP 7 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction  
IGRAP 8 - Agreements for the Construction of Assets from Exchange Transactions  
IGRAP 9 - Distributions of Non-cash Assets to Owners  
IGRAP 10 - Assets Received from Customers  
IGRAP 11 - Consolidation - Special Purpose Entities  
IGRAP 12 - Jointly Controlled Entities - Non-Monetary Contributions  
IGRAP 13 - Operating Leases – Incentives  
IGRAP 14 - Evaluating the Substance of Transactions Involving the Legal Form of a Lease  
IGRAP 15 - Revenue – Barter Transactions Involving Advertising Services  
IGRAP 16 - Intangible Assets – Website Costs

#### 1.2 Changes in Accounting Policy and Comparability



# Umzimvubu Local Municipality

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Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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Accounting Policies have been consistently applied, except where otherwise indicated below.

For the years ended 30 June 2017 and 30 June 2018 the municipality has adopted the accounting framework as set out in paragraph 1 above. The details of any resulting changes in Accounting Policy and comparative restatements are set out in the relevant Notes to the Annual Financial Statements.

The municipality changes an Accounting Policy only if the change:

- (a) Is required by a Standard of GRAP; or
- (b) Results in the Annual Financial Statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the municipality's financial position, financial performance or cash flow.

### 1.2.1 Municipal Standard Chart of Accounts (mSCOA) Implementation and Reclassification

The Municipal Regulations on Standard Chart of Accounts promulgated in terms of Government Gazette 37577 dated 22 April 2014 apply to all municipalities and municipal entities and became effective from 1 July 2017.

The main objective of this regulation is to provide for a national standard in respect of uniform recording and classification of municipal budget and financial information at a transaction level by prescribing a standard chart of accounts for municipalities and municipal entities which:

- a) are aligned to the budget formats and accounting standards prescribed for municipalities and municipal entities and with the standard chart of accounts for national and provincial government; and
- b) enable uniform information sets recorded in terms of national norms and standards across the whole of government for the purposes of national policy coordination and reporting, benchmarking and performance measurement in the local government sphere.

The impact of this mSCOA regulations definitely affected the municipality's current business processes; transacting and reporting requirements.

### 1.3 Critical Judgements, Estimations and Assumptions

In the application of the municipality's Accounting Policies, which are described below, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

These estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the critical judgements and estimations that management have made in the process of applying the municipality's Accounting Policies and that have the most significant effect on the amounts recognised in Annual Financial Statements:

#### 1.3.1 Revenue Recognition

Accounting Policy 11.2 on Revenue from Exchange Transactions and Accounting Policy 11.3 on Revenue from Non-exchange Transactions describes the conditions under which revenue will be recorded by the management of the municipality.

In making their judgement, the management considered the detailed criteria for the recognition of revenue as set out in GRAP 9 (*Revenue from Exchange Transactions*) and GRAP 23 (*Revenue from Non-exchange Transactions*). As far as Revenue from Non-exchange Transactions is concerned (see Basis of Preparation above), and, in particular, whether the municipality, when goods are sold, had transferred to the buyer the significant risks and rewards of ownership of the goods and when services is rendered, whether the service has been rendered. Also of importance is the estimation process involved in initially measuring revenue at the fair value thereof. Management of the municipality is satisfied that recognition of the revenue in the current year is appropriate.

# Umzimvubu Local Municipality

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## Accounting Policies

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### 1.3.2 Financial Assets and Liabilities

The classification of Financial Assets and Liabilities, into categories, is based on judgement by management. Accounting Policy 9.1 on Financial Assets Classification and Accounting Policy 9.2 on Financial Liabilities Classification describe the factors and criteria considered by the management of the municipality in the classification of Financial Assets and Liabilities.

In making the above-mentioned judgement, management considered the definition and recognition criteria for the classification of Financial Instruments as set out in GRAP 104 (*Financial Instruments*).

### 1.3.3 Impairment of Financial Assets

Accounting Policy 9.4 on Impairment of Financial Assets describes the process followed to determine the value at which Financial Assets should be impaired. In making the estimation of the impairment, the management of the municipality considered the detailed criteria of impairment of Financial Assets as set out in GRAP 104 (*Financial Instruments*) and used its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of the reporting period. The management of the municipality is satisfied that impairment of Financial Assets recorded during the year is appropriate.

- Impairment of Trade Receivables:

The calculation in respect of the impairment of Debtors is based on an assessment of the extent to which Debtors have defaulted on payments already due, and an assessment of their ability to make payments based on their creditworthiness. This is performed per service-identifiable categories across all classes of debtors.

The total increase in estimation of the impairment of Receivables from Exchange Transactions and that of Receivables from Non-exchange Transactions are disclosed in Notes 3 and 4 to the Annual Financial Statements.

### 1.3.4 Useful lives of Property, Plant and Equipment, Intangible Assets and Investment Property

As described in Accounting Policies 3.3, 4.2 and 5.2 the municipality depreciates its Property, Plant & Equipment and Investment Property, and amortises its Intangible Assets, over the estimated useful lives of the assets, taking into account the residual values of the assets at the end of their useful lives, which is determined when the assets are available for use.

The useful lives of assets are based on management's estimation. Management considered the impact of technology, availability of capital funding, service requirements and required return on assets in order to determine the optimum useful life expectation, where appropriate.

The estimation of residual values of assets is based on management's judgement as to whether the assets will be sold or used to the end of their useful lives, and in what condition they will be at that time.

The municipality has opted to early adopt the changes to GRAP 17 (*Property, Plant and Equipment*) as evident from Exposure Draft 126. Therefore, the useful lives and residual values of items of Property, Plant and Equipment, Intangible Assets and Investment Property shall only be amended if there have been any indicators that require such change to be made.

### 1.3.5 Impairment: Write-down of Property, Plant & Equipment, Intangible Assets, Investment Property, Heritage Assets and Inventories

Accounting Policy 7 on Impairment of Assets, Accounting Policy 4.2 on Intangible Assets – Subsequent Measurement, Amortisation and Impairment and Accounting Policy 10.2 on Inventory – Subsequent Measurement describe the conditions under which nonfinancial assets are tested for potential impairment losses by the management of the municipality. Significant estimates and judgements are made relating to impairment testing of Property, Plant and Equipment, impairment testing of Intangible Assets and write-down of Inventories to the lowest of Cost and Net Realisable Value.

In making the above-mentioned estimates and judgement, management considered the subsequent measurement criteria and indicators of potential impairment losses as set out in GRAP 21 (Impairment of Non-cash Generating Assets) and GRAP 26 (Impairment of Cash Generating Assets). In particular, the calculation of the recoverable service amount for PPE and Intangible Assets and the Net Realisable Value for Inventories involves significant judgment by management.

Estimated impairments during the year to Property, Plant and Equipment, Intangible Assets, Investment Property, Heritage Assets and Inventory are disclosed in Notes 9, 8, 10, 11 and 2 to the Annual Financial Statements, if applicable.

# Umzimvubu Local Municipality

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Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1.3.6 Provisions and Contingent Liabilities

Management judgement is required when recognising and measuring Provisions and when measuring Contingent Liabilities. Provisions are discounted where the effect of discounting is material using actuarial valuations.

### 1.3.7 Budget Information

Deviations between budget and actual amounts are regarded as material differences when a 10% deviation exists. All material differences are explained in the relevant Notes to the Annual Financial Statements.

### 1.3.8 Defined benefit plan liability

As described in accounting policy note 13 the municipality obtains actuarial valuations of its defined benefit plan liabilities. The defined benefit plan obligation of the municipality that has been identified is a Long Service Awards Liability. The related estimated liability is accounted for in accordance with the requirements of GRAP 25 Employee Benefits.

The present value of the Long Service Awards Liability depends on a number of factors that are determined on an actuarial basis using a number of assumptions, such as discount rates, expected rates of return on plan assets, future salary increases, mortality rates and other factors. Any changes in these assumptions will impact on the carrying amount of post retirement obligations and due to the long term nature of Long Service Awards, such estimates are subject to significant uncertainty.

The net effective discount rate used for the purposes of the above-mentioned valuation is determined by the actuary based on various other rates and factors, as detailed in note 17 to the Annual Financial Statements. Such rates are estimated by the actuary and are also subject to significant uncertainty.

### 1.4 Presentation currency

These annual financial statements are presented in South African Rand, rounded off to the nearest Rand which is the functional currency of the municipality.

### 1.5 Going concern assumption

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

### 1.6 Offsetting

Assets, Liabilities, Revenues and Expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP.

### 1.7 Standards, Amendments to Standards and Interpretations issued but not yet Effective

The following Standards of GRAP and Interpretations of the Standards of GRAP have been issued but are not yet effective and have not been early adopted by the municipality:

- GRAP 20 Related Party Disclosures (Revised) (no effective date determined yet)
- GRAP 32 Service Concession Arrangement Grantor - issued August 2013 (no effective date determined yet)
- GRAP 34 Separate Financial Statements
- GRAP 35 Consolidated Financial Statements
- GRAP 36 Investments in Associates and Joint Ventures
- GRAP 37 Joint Arrangements
- GRAP 108 Statutory Receivables - issued September 2013. (no effective date determined yet)
- GRAP 109 Accounting by Principals and Agents - issued August 2013 (no effective date determined yet)
- GRAP 110 Living and Non-living resources
- IGRAP 17 Service Concession Arrangements Where a Grantor Controls a Significant Residual Interest in an Asset. issued August 2013 (no effective date determined yet).

The ASB Directive 5, paragraph 29, sets out the principles for the application of the GRAP 3 guidelines in the determination of the GRAP Reporting Framework hierarchy as set out in the standard of GRAP 3 on *Accounting Policies, Changes in Accounting Estimates and Errors*.

# Umzimvubu Local Municipality

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Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### Standards, Amendments to Standards and Interpretations issued but not yet Effective (continued)

Where a standard of GRAP is approved as effective, it replaces the equivalent statement of International Public Sector Accounting Standards Board, International Financial Reporting Standards or Generally Accepted Accounting Principles. Where a standard of GRAP has been issued but is not yet in effect, the municipality may select to apply the principles established in that standard in developing an appropriate Accounting Policy dealing with a particular section or event before applying paragraph 12 of the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Error.

The municipality applied the principles established in the following Standards of GRAP that have been issued but are not yet effective, in developing appropriate Accounting Policies

- GRAP 20 Related Party Disclosures (Revised)

Management has considered all of the above-mentioned GRAP Standards issued but not yet effective and anticipates that the adoption of these standards will not have a significant impact on the financial position, financial performance or cash flows of the municipality.

## 2. Nett Assets

### 2.1 Accumulated Surplus

Included in the Accumulated Surplus of the municipality are the following Reserves that are maintained in terms of specific requirements:

#### 2.1.1 Capital Replacement Reserve (CRR)

In order to finance the provision of Infrastructure and other items of Property, Plant and Equipment from internal sources, amounts are transferred from the Accumulated Surplus/(Deficit) to the CRR in terms of delegated powers.

The following provisions are set for the creation and utilisation of the CRR:

- The cash funds that back up the CRR are invested until utilised. The cash may only be invested in accordance with the Investment Policy of the municipality.
- The CRR may only be utilised for the purpose of purchasing items of Property, Plant and Equipment and may not be used for the maintenance of these items.
- Whenever an asset is purchased out of the CRR, an amount equal to the cost price of the asset is transferred from the CRR and the Accumulated Surplus/(Deficit) is credited by a corresponding amount.

## 3 Property, plant and equipment

### 3.1 Initial Recognition

Property, Plant and Equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one

The cost of an item of Property, Plant and Equipment is recognised as an asset if, and only if, it is probable that future economic benefits or service potential associated with the item will flow to the municipality, and if the cost or fair value of the item can be measured reliably.

Property, Plant and Equipment are initially recognised at cost on its acquisition date or in the case of assets acquired by grants or donations, deemed cost, being the fair value of the asset on initial recognition. The cost of an item of Property, Plant and Equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by the municipality. Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the necessary costs of dismantling and removing the asset and restoring the site on which it is located.

When significant components of an item of Property, Plant and Equipment have different useful lives, they are accounted for as separate items (major components) of Property, Plant and Equipment.

Where an asset is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

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Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### Property, plant and equipment (continued)

The cost of an item of Property, Plant and Equipment acquired in exchange for non-monetary assets or monetary assets, or a combination of monetary and non-monetary assets is measured at the fair value of the asset given up, unless the fair value of the asset received is more clearly evident. If the acquired item could not be measured at its fair value, its cost is measured at the carrying amount of the asset given up.

Major spare parts and servicing equipment qualify as Property, Plant and Equipment when the municipality expects to use them during more than one period. Similarly, if the major spare parts and servicing equipment can be used only in connection with an item of Property, Plant and Equipment, they are accounted for as Property, Plant and Equipment.

Repairs and Maintenance are expenses incurred through servicing equipment or repairing of existing assets. These expenses are not recognised in the carrying value of the asset, but directly recognised in the Statement of Financial Performance and measured at cost against the attributing segments of the Municipal Standard Chart of Accounts (MSCoA).

### 3.2 Subsequent Measurement

Subsequent expenditure relating to Property, Plant and Equipment is capitalised if it is probable that future economic benefits or potential service delivery associated with the subsequent expenditure will flow to the municipality and the cost or fair value of the subsequent expenditure can be reliably measured. Subsequent expenditure incurred on an asset is only capitalised when it increases the capacity or future economic benefits associated with the asset. Where the municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component.

Subsequently all Property Plant and Equipment are measured at cost, less accumulated depreciation and accumulated impairment losses.

Compensation from third parties for items of Property, Plant and Equipment that were impaired, lost or given up is included in the Statement of Financial Performance when the compensation becomes receivable.

### 3.3 Depreciation

Depreciation on assets other than land is calculated on cost, using the *Straight-line Method*, to allocate their cost or revalued amounts to their residual values over the estimated useful lives of the assets. The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality. Each part of an item of Property, Plant and Equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

Depreciation only commences when the asset is available for use, unless stated otherwise. The depreciation rates are based on the following estimated useful lives:

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Item	Depreciation method	Useful life range
Transport Assets	Straight line	5-20
Electrical Infrastructure	Straight line	15-50
Machinery and Equipment	Straight line	2-15
Furniture and Office Equipment	Straight line	3-10
Computer Equipment	Straight line	3-5
Roads Infrastructure	Straight line	8-50
Community Assets	Straight line	5-80
Other Assets	Straight line	5-50
Solid Waste Infrastructure	Straight line	15-90

The assets' residual values, estimated useful lives and depreciation methods are reviewed annually and adjusted prospectively, if appropriate, at each reporting date. Assets, including assets not yet available for use, are annually tested for impairment as described in Accounting Policy 7, Impairment of Assets, whilst estimates in useful lives are reviewed in accordance with Accounting Policy 8, Estimation of Useful Lives.

### 3.4 Land

Land is stated at historical cost and is not depreciated as it is deemed to have an indefinite useful life.

### 3.5 Infrastructure Assets

# Umzimvubu Local Municipality

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Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### **Property, plant and equipment (continued)**

Infrastructure Assets are any assets that are part of a network of similar assets. Infrastructure Assets are shown at cost less accumulated depreciation and accumulated impairment. Infrastructure Assets are treated similarly to all other assets of the municipality in terms of the Asset Management Policy.

# Umzimvubu Local Municipality

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Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### **Property, plant and equipment (continued)**

#### **3.6 Incomplete Construction Work**

Incomplete Construction Work is stated at historical cost. Depreciation only commences when the asset is available for use.

#### **3.7 Leased Assets**

Assets capitalised under finance leases are depreciated over their expected useful lives on the same basis as Property, Plant and Equipment controlled by the municipality or, where shorter, the term of the relevant lease if there is no reasonable certainty that the municipality will obtain ownership by the end of the lease term.

#### **3.8 Derecognition**

The carrying amount of an item of Property, Plant and Equipment is derecognised on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of an item of Property, Plant and Equipment is included in surplus or deficit when the item is derecognised. Gains are not classified as revenue.

Gains or losses are calculated as the difference between the carrying value of assets (cost less accumulated depreciation and accumulated impairment losses) and the proceeds from disposals are included in the Statement of Financial Performance as a gain or loss on disposal of Property, Plant and Equipment.

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## Accounting Policies

### 4 Intangible Assets

The municipality changed its Accounting Policy from GRAP 102 to GRAP 31 with no effect on the financial information previously disclosed.

#### 4.1 Initial Recognition

Identifiable non-monetary assets without physical substance are classified and recognised as Intangible Assets. The municipality recognises an Intangible Asset in its Statement of Financial Position only when it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality and the cost or fair value of the asset can be measured reliably.

Internally generated Intangible Assets are subject to strict recognition criteria before they are capitalised. Research expenditure is recognised as an expense as it is incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as Intangible Assets when the following criteria are fulfilled:

- (a) It is technically feasible to complete the Intangible Asset so that it will be available for use;
- (b) Management intends to complete the Intangible Asset and use or sell it;
- (c) There is an ability to use or sell the Intangible Asset;
- (d) It can be demonstrated how the Intangible Asset will generate probable future economic benefits;
- (e) Adequate technical, financial and other resources to complete the development and to use or sell the Intangible Asset are available; and
- (f) The expenditure attributable to the Intangible Asset during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as Intangible Assets and amortised from the point at which the asset is available for use. Development assets are tested for impairment annually, in accordance with GRAP 21 or GRAP 26.

Intangible Assets are initially recognised at cost. The cost of an Intangible Asset is the purchase price and other costs attributable to bring the Intangible Asset to the location and condition necessary for it to be capable of operating in the manner intended by the municipality, or where an Intangible Asset is acquired at no cost, or for a nominal cost, the cost shall be its fair value as at the date of acquisition. Trade discounts and rebates are deducted in arriving at the cost.

The cost of an Intangible Asset acquired in exchange for non-monetary assets or monetary assets, or a combination of monetary and non-monetary assets, is measured at the fair value of the asset given up, unless the fair value of the asset received is more clearly evident. If the acquired item could not be measured at its fair value, its cost is measured at the carrying amount of the asset given up. If the acquired item's fair value was not determinable, its deemed cost is the carrying amount of the asset(s) given up.

Repairs and Maintenance are expenses incurred through servicing equipment or repairing of existing assets. These expenses are not recognised in the carrying value of the asset, but directly recognised in the Statement of Financial Performance and measured at cost against the attributing segments of the Municipal Standard Chart of Accounts (MSCoA).

#### 4.2 Subsequent Measurement, Amortisation and Impairment

After initial recognition, Intangible Assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

Expenditure on an intangible item that was initially recognised as an expense shall not be recognised as part of the cost of an Intangible Asset at a later date.

In terms of GRAP 31, Intangible Assets are distinguished between internally generated Intangible Assets and other Intangible Assets. It is further distinguished between indefinite or finite useful lives. Amortisation is charged on a Straight-line Basis over the Intangible Assets' useful lives. The residual value of Intangible Assets with finite useful lives is zero, unless an active market exists. Where Intangible Assets are deemed to have indefinite useful lives, such Intangible Assets are not amortised. However, such Intangible Assets are subject to an annual impairment test.

Amortisation only commences when the intangible asset is available for use, unless stated otherwise. The amortisation rates are based on the following estimated useful lives:

Item	Depreciation method	Average useful life
Computer software	Straight line	4



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(continued)

Website

Straight line

Infinite

The assets' residual values, estimated useful lives and amortisation methods are reviewed annually and adjusted prospectively, if appropriate, at each reporting date. Assets, including assets not yet available for use, are annually tested for impairment as described in Accounting Policy 7, Impairment of Assets, whilst estimates in useful lives are reviewed in accordance with Accounting Policy 8, Estimation of Useful Lives.

### 4.3 Derecognition

Intangible Assets are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an Intangible Asset is determined as the difference between the proceeds of disposal and the carrying value and is recognised in the Statement of Financial Performance.

## 5. Investment property

### 5.1 Initial Recognition

Investment Property includes property (land or a building, or part of a building, or both land and buildings held under a finance lease) held to earn rentals and/or for capital appreciation, rather than held to meet service delivery objectives, the production or supply of goods or services, or the sale of an asset in the ordinary course of operations.

At initial recognition, the municipality measures Investment Property at cost including transaction costs once it meets the definition of Investment Property. However, where an Investment Property was acquired through a non-exchange transaction (i.e. where it acquired the Investment Property for no or a nominal value), its cost is its fair value as at the date of acquisition.

The cost of self-constructed Investment Property is the cost at date of completion.

Based on management's judgement, the following criteria have been applied to distinguish Investment Properties from owner occupied property or property held for resale:

- (a) Land held for long-term capital appreciation rather than for short-term sale in the ordinary course of operations;
- (b) Land held for a currently undetermined future use (If the municipality has not determined that it will use the land as owner-occupied property or for short-term sale in the ordinary course of operations, the land is regarded as held for capital appreciation);
- (c) A building owned by the municipality (or held by the municipality under a finance lease) and leased out under one or more operating leases on a commercial basis (this will include the property portfolio rented out on a commercial basis on behalf of the municipality);
- (d) A property owned by the municipality and leased out at a below market rental; and
- (e) Property that is being constructed or developed for future use as investment property.

The rent earned does not have to be at a commercial basis or market related for the property to be classified as investment property.

The following assets do not fall in the ambit of Investment Property and shall be classified as Property, Plant and Equipment or Inventory as appropriate:

- (a) Property held for sale in the ordinary course of operations or in the process of construction or development for such sale;
- (b) Property being constructed or developed on behalf of third parties;
- (c) Owner-occupied property, including (among other things) property held for future use as owner-occupied property, property held for future development and subsequent use as owner-occupied property, property occupied by employees such as housing for personnel (whether or not the employees pay rent at market rates) and owner-occupied property awaiting disposal;

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### Investment property (continued)

- (d) Property that is leased to another entity under a finance lease;
- (e) Property held to provide goods and services and also generates cash inflows; and
- (f) Property held for strategic purposes which would be accounted for in accordance with the Standard of GRAP on Property, Plant and Equipment.

Repairs and Maintenance are expenses incurred through servicing equipment or repairing of existing assets. These expenses are not recognised in the carrying value of the asset, but directly recognised in the Statement of Financial Performance and measured at cost against the attributing segments of the Municipal Standard Chart of Accounts (MSCoA).

### 5.2 Subsequent Measurement

#### Fair value

Subsequent to initial measurement investment property is measured at fair value.

The fair value of investment property reflects market conditions at the reporting date.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

If the entity determines that the fair value of an investment property under construction is not reliably determinable but expects the fair value of the property to be reliably measurable when construction is complete, it measures that investment property under construction at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier). If the entity determines that the fair value of an investment property (other than an investment property under construction) is not reliably determinable on a continuing basis, the entity measures that investment property using the cost model (as per the accounting policy on Property, plant and equipment). The residual value of the investment property is then assumed to be zero. The entity applies the cost model (as per the accounting policy on Property, plant and equipment) until disposal of the investment property.

Once the entity becomes able to measure reliably the fair value of an investment property under construction that has previously been measured at cost, it measures that property at its fair value. Once construction of that property is complete, it is presumed that fair value can be measured reliably. If this is not the case, the property is accounted for using the cost model in accordance with the accounting policy on Property, plant and equipment.

### 5.3 Derecognition

An Investment Property shall be derecognised (eliminated from the Statement of Financial Position) on disposal or when the Investment Property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

## 6. Heritage assets

A Heritage Asset is defined as an asset that has a cultural, environmental, historical, natural, scientific, technological or artistic significance, and is held and preserved indefinitely for the benefit of present and future generations.

Heritage Assets are not depreciated owing to uncertainty regarding to their estimated useful lives. The municipality assess at each reporting date if there is an indication of impairment.

### 6.1 Initial Recognition

The cost of an item of Heritage Assets is recognised as an asset if, and only if, it is probable that future economic benefits or service

potential associated with the item will flow to the municipality, and if the cost or fair value of the item can be measured reliably.

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### Heritage assets (continued)

Heritage Assets are initially recognised at cost on its acquisition date or in the case of assets acquired by grant or donation, deemed cost, being the fair value of the asset on initial recognition. The cost of an item of Heritage Assets is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by the municipality. Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the necessary costs of dismantling and removing the asset and restoring the site on which it is located.

Where an asset is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

The cost of an item of Heritage Assets acquired in exchange for a non-monetary asset or monetary asset, or a combination of monetary and non-monetary assets, is measured at the fair value of the asset given up, unless the fair value of the asset received is more clearly evident. If the acquired item could not be measured at its fair value, its cost is measured at the carrying amount of the asset given up.

### 6.2 Subsequent Measurement

Subsequent expenditure relating to Heritage Assets is capitalised if it is probable that future economic benefits or potential service delivery associated with the subsequent expenditure will flow to the municipality and the cost or fair value of the subsequent expenditure can be reliably measured. Subsequent expenditure incurred on an asset is only capitalised when it increases the capacity or future economic benefits associated with the asset. Where the municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component.

Subsequently all Heritage Assets are measured at cost, less accumulated impairment losses.

### 6.3 Derecognition

The carrying amount of an item of Heritage Assets is derecognised on disposal, or when no future economic benefits or service potential are expected from its use or disposal. The gain or loss arising from the derecognition of an item of Heritage Assets is included in surplus or deficit when the item is derecognised. Gains are not classified as revenue. Gains or losses are calculated as the difference between the carrying value of assets (cost less accumulated impairment losses) and the disposal proceeds is included in the Statement of Financial Performance as a gain or loss on disposal of Heritage Assets.

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### 7. Impairment of cash and non-cash generating assets

The municipality classifies all assets held with the primary objective of generating a commercial return as Cash Generating Assets. All other assets are classified as Non-cash Generating Assets.

#### 7.1 Impairment of Cash Generating Assets

The municipality assesses at each reporting date whether there is any indication that an asset may be impaired.

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the cash generating unit to which the asset belongs is determined.

The recoverable amount of an asset or a cash generating unit is the higher of its fair value less costs to sell and its value in use. The best evidence of fair value less cost to sell is the price in a binding sale agreement in an arm's length transaction, adjusted for the incremental cost that would be directly attributable to the disposal of the asset.

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in the Statement of Financial Performance.

An impairment loss is recognised for cash generating units if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment loss is allocated to reduce the carrying amount of the assets of the unit pro rata on the basis of the carrying amount of each asset in the unit.

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets may no longer exist or may have decreased. If any such indication exists, the recoverable amounts of those assets are estimated.

The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in the Statement of Financial Performance.

#### 7.2 Impairment of Non-cash Generating Assets

The municipality assesses at each reporting date whether there is any indication that an asset may be impaired.

If there is any indication that an asset may be impaired, the recoverable service amount is estimated for the individual asset. If it is not possible to estimate the recoverable service amount of the individual asset, the recoverable service amount of the non-cash generating unit to which the asset belongs is determined.

The recoverable service amount of a non-cash generating asset is the higher of its fair value less costs to sell and its value in use. The value in use for a non-cash generating asset is the present value of the asset's remaining service potential.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

If the recoverable service amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in the Statement of Financial Performance.

An impairment loss is recognised for non-cash generating units if the recoverable service amount of the unit is less than the carrying amount of the unit. The impairment loss is allocated to reduce the carrying amount of the assets of the unit pro rata on the basis of the carrying amount of each asset in the unit.

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### Impairment of cash and non-cash generating assets (continued)

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets may no longer exist or may have decreased. If any such indication exists, the recoverable service amounts of those assets are estimated.

The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in the Statement of Financial Performance.

### 8. Estimation of useful lives

The municipality depreciates its assets over their estimated useful lives.

Useful life of an asset is defined as:

- the period of time over which an asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the municipality.

The municipality assesses at each reporting date whether there is any indication that the useful life of an asset has changed. If any such indication exists, the useful life is changed.

Any change in the useful life is accounted for as Change in Estimate in accordance with GRAP 3 (Accounting Policies, Change in Accounting Estimates and Errors).

Annually the municipality considers whether there is any indication that the initial useful lives of assets need to be revised. The municipality considers the following during the assessment of its assets' useful lives. Whether:

- (a) The composition of the asset has changed.
- (b) The use of the asset has changed because of the following:
  - (i) The municipality has changed the manner in which the asset is used;
  - (ii) The municipality has changed the utilisation rate of the asset;
  - (iii) The municipality has made the decision to dispose of the asset during a future reporting period which results in a change in the useful life of the asset;
  - (iv) Technological, environmental or commercial changes occurred during the reporting period that will change the use of the asset; and
  - (v) The asset was idle or retired during the current reporting period.
- (c) The asset is approaching its previously expected useful life.
- (d) There is evidence that the condition of the asset improved or declined based on assessments undertaken during the reporting period.
- (e) The asset is assessed as being impaired in accordance with the Accounting Policy and on Impairment of Assets.

A decrease in the estimated useful life of an asset is accounted for as an impairment in the Statement of Financial Performance.

The impairment of an asset is accounted for in accordance with Accounting policy and on Impairment of Assets. The estimation of the useful lives of the municipality's assets is a matter of judgement based on the experience of the municipality with similar assets. The municipality considers all facts and circumstances in estimating the useful lives of assets, which includes the consideration of financial, technical and other factors.

### 9. Financial instruments

The municipality has various types of Financial Instruments and these can be broadly categorised as *Financial Assets*, *Financial Liabilities* or *Residual Interests* in accordance with the substance of the contractual agreement. The municipality only recognises a Financial Instrument when it becomes a party to the contractual provisions of the instrument.

#### Initial Recognition

Financial Assets and Financial Liabilities are recognised on the municipality's Statement of Financial Position when it becomes party to the contractual provisions of the instrument.

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## Accounting Policies

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### Financial instruments (continued)

The municipality does not offset a Financial Asset and a Financial Liability unless a legally enforceable right to set off the recognised amounts currently exist and the municipality intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

### Fair Value Methods and Assumptions

The fair values of Financial Instruments are determined as follows:

- The fair values of quoted investments are based on current bid prices.
- If the market for a Financial Asset is not active (and for unlisted securities), the municipality establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

### The Effective Interest Rate Method

The Effective Interest Method is a method of calculating the amortised cost of a Financial Asset or a Financial Liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the Financial Instrument or, when appropriate, a shorter period to the net carrying amount of the Financial Asset or Financial Liability.

### Amortised Cost

Amortised Cost is the amount at which the Financial Asset or Financial Liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation, using the Effective Interest Rate Method of any difference between that initial amount and the maturity amount, and minus any reduction for impairment or uncollectability.

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## Accounting Policies

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### Financial instruments (continued)

#### 9.1 Financial Assets - Classification

A Financial Asset is any asset that is a cash, a contractual right to receive cash or another financial asset from another entity.

In accordance with GRAP 104 the Financial Assets of the municipality are classified as follows into the three categories allowed by this standard:

- **Financial Assets measured at Amortised Cost** are non-derivative Financial Assets with fixed or determinable payments that are not quoted in an active market. They are included in Current Assets, except for maturities greater than 12 months, which are classified as Non-current Assets. Financial Assets at Amortised Cost are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition or issue of the Financial Asset. After initial recognition, Financial Assets are measured at amortised cost, using the *Effective Interest Rate Method* less a provision for impairment.
- **Financial Assets measured at Fair Value** are financial assets that meet either of the following conditions:
  - (i) Derivatives;
  - (ii) Combined instruments that are designated at fair value;
  - (iii) Instruments held for trading;
  - (iv) Non-derivative Financial Instruments with fixed or determinable payments that are designated at fair value at initial recognition; or
  - (v) Financial Instruments that do not meet the definition of Financial Instruments at Amortised Cost or Financial Instruments at Cost.
- **Financial Assets measured at Cost** are investments in residual Interest that do not have a quoted market price in an active market and whose fair value cannot be reliably measured.

The municipality has the following types of Financial Assets as reflected on the face of the Statement of Financial Position or in the Notes thereto:

#### Type of Financial Asset

Receivables from Exchange Transactions  
Receivables from Non-exchange Transactions  
Bank: Cash and Cash Equivalents - Notice Deposits  
Bank: Cash and Cash Equivalents - Call Deposits  
Bank: Cash and Cash Equivalents - Bank  
Bank: Cash and Cash Equivalents - Cash

#### Classification in terms of GRAP 104

Financial asset measured at amortised cost  
Financial asset measured at amortised cost  
Financial asset measured at amortised cost  
Financial asset at Fair Value  
Financial asset at Fair Value  
Financial asset at Fair Value

Cash includes cash-on-hand (including petty cash) and cash with banks (including call deposits). Cash Equivalents are short-term highly liquid investments, readily convertible into known amounts of cash, which are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value. For the purposes of the Cash Flow Statement, Cash and Cash Equivalents comprise cash-on-hand and deposits held on call with banks, net of bank overdrafts. The municipality categorises Cash and Cash Equivalents as Financial Assets at Fair Value.

#### 9.2 Financial Liabilities – Classification

A Financial Liability is a contractual obligation to deliver cash or another Financial Assets to another entity.

There are three main categories of Financial Liabilities, the classification determining how they are measured. Financial Liabilities may be measured at:

- (i) Financial Liabilities measured at Fair Value;
- (ii) Financial Liabilities measured at Amortised Cost; or
- (iii) Financial Liabilities measured at Cost.

The municipality has the following types of Financial Liabilities as reflected on the face of the Statement of Financial Position or in the Notes thereto:

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## Accounting Policies

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### Financial instruments (continued)

#### Type of Financial Liabilities

Long-term Liabilities  
Payables from Exchange Transactions  
Payables from Non-exchange Transactions  
Current Portion of Long-term Liabilities

#### Classification in terms of GRAP 104

Financial liability measured at amortised cost  
Financial liability measured at amortised cost  
Financial liability measured at amortised cost  
Financial liability measured at amortised cost

Financial Liabilities that are measured at Fair Value are Financial Liabilities that are essentially held for trading (i.e. purchased with the intention to sell or repurchase in the short term; derivatives other than hedging instruments or are part of a portfolio of Financial Instruments where there is recent actual evidence of short-term profiteering or are derivatives).

### 9.3 Initial and Subsequent Measurement of financial assets and financial liabilities

#### 9.3.1 Financial Assets:

##### Financial Assets measured at Amortised Cost

Financial Assets at Amortised Cost are initially measured at fair value plus transaction costs that are directly attributable to the acquisition or issue of the Financial Asset. Subsequently, these assets are measured at amortised cost using the Effective Interest Method less any impairment, with interest recognised on an Effective Yield Basis.

Trade and Other Receivables (excluding Value Added Taxation, Prepayments and Operating Lease receivables), Loans to Municipal Entities and Loans that have fixed and determinable payments that are not quoted in an active market are classified as Financial Assets at Amortised Cost.

##### Financial Assets measured at Fair Value

Financial Assets at Fair Value are initially measured at fair value, excluding directly attributable transaction costs. They are subsequently measured at fair value with unrealised gains or losses recognised directly in the Statement of Financial Performance.

#### 9.3.2 Financial Liabilities:

##### Financial Liabilities measured at Fair Value

Financial Liabilities at Fair Value are stated at fair value, with any resulted gain or loss recognised in the Statement of Financial Performance.

##### Financial Liabilities held at Amortised Cost

Any other Financial Liabilities are classified as *Other Financial Liabilities* (All Payables, Loans and Borrowings are classified as Other Liabilities) and are initially measured at fair value, net of transaction costs. Trade and Other Payables, Interest-bearing Debt including Finance Lease Liabilities, Non-interest-bearing Debt and Bank Borrowings are subsequently measured at amortised cost using the *Effective Interest Rate Method*. Interest expense is recognised in the Statement of Financial Performance by applying the effective interest rate.

Prepayments are carried at cost less any accumulated impairment losses.



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## Accounting Policies

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### Financial instruments (continued)

#### Derecognition

##### 9.5 Derecognition of Financial assets

The municipality derecognises Financial Assets only when the contractual rights to the cash flows from the asset expires or it transfers the Financial Asset and substantially all the risks and rewards of ownership of the asset to another entity, except when Council approves the write-off of Financial Assets due to non-recoverability.

If the municipality neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the municipality recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the municipality retains substantially all the risks and rewards of ownership of a transferred Financial Asset, the municipality continues to recognise the Financial Asset and also recognises a collateralised borrowing for the proceeds received.

##### 9.6 Derecognition of Financial liabilities

The municipality derecognises Financial Liabilities when, and only when, the municipality's obligations are discharged, cancelled or they expire.

The municipality recognises the difference between the carrying amount of the Financial Liability (or part of a Financial Liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, in the Statement of Financial Performance.

## 10. Inventories

### 10.1 Initial Recognition

Inventories comprise current assets held-for-sale, current assets for consumption or distribution during the ordinary course of business. Inventories are initially recognised at cost. Cost generally refers to the purchase price, plus taxes, transport costs and any other costs in bringing the Inventories to their current location and condition. Where Inventory is manufactured, constructed or produced, the cost includes the cost of labour, materials and overheads used during the manufacturing process.

Where Inventory is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of the item on the date acquired.

Direct costs relating to properties that will be sold as Inventory are accumulated for each separately identifiable development. Costs also include a proportion of overhead costs.

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## Accounting Policies

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### Inventories (continued)

#### 10.2 Subsequent Measurement

##### 10.2.1 Consumable Stores, Raw Materials, Work-in-Progress and Finished Goods

Consumable stores, raw materials, work-in-progress, inventories distributed at no charge or for a nominal charge and finished goods are valued at the lower of cost and net realisable value (net amount that the municipality expects to realise from the sale on Inventory in the ordinary course of business). The cost is determined using the weighted average cost of commodities.

##### 10.2.2 Other Arrangements

Redundant and slow-moving Inventories identified are written down from cost to current replacement cost, if applicable.

Inventories identified to be sold by public auction are written down from cost to net realisable value with regard to their estimated economic or realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

Differences arising on the measurement of such Inventory at the lower of cost and current replacement cost or net realisable value, are recognised in the Statement of Financial Performance in the year in which they arise. The amount of any reversal of any writedown of Inventories arising from an increase in current replacement cost or net realisable value is recognised as a reduction in the amount of Inventories recognised as an expense in the period in which the reversal occurs.

The carrying amount of Inventories is recognised as an expense in the period that the Inventory was sold, distributed, written off or consumed, unless that cost qualifies for capitalisation to the cost of another asset.

#### 11. Revenue recognition

##### 11.1 General

Revenue is derived from a variety of sources which include rates levied, grants from other tiers of government and revenue from trading activities and other services provided.

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the municipality's activities. Revenue is shown net of value-added tax, returns, rebates and discounts.

The municipality recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits or service potential will flow to the municipality and when specific criteria have been met for each of the municipality's activities as described below, except when specifically stated otherwise. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The municipality bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement. Furthermore, services rendered are recognised by reference to the stage of completion of the transaction at the reporting date.

Revenue from Exchange Transactions refers to revenue that accrued to the municipality directly in return for services rendered / goods sold, the value of which approximates the consideration received or receivable.

Revenue from Non-exchange Transactions refers to transactions where the municipality received revenue from another entity without directly giving approximately equal value in exchange. Revenue from non-exchange transactions is generally recognised to the extent that the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount.

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, stock rotation, price protection, rebates and other similar allowances.

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## Accounting Policies

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### Revenue recognition (continued)

#### 11.2 Revenue from Exchange Transactions

##### 11.2.1 Service Charges

Service Charges are levied in terms of approved tariffs.

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff to all properties that have improvements. Tariffs are determined per category of property usage, and are levied based on the extent of each property.

##### 11.2.2 Rentals Received

Revenue from the rental of facilities and equipment is recognised on a Straight-line Basis over the term of the lease agreement.

##### 11.2.3 Finance Income

Interest earned on investments is recognised in the Statement of Financial Performance on the *Time-proportionate Basis* that takes into account the effective yield on the investment.

##### 11.2.4 Tariff Charges

Revenue arising from the application of the approved tariff of charges is recognised when the relevant service is rendered by applying the relevant authorised tariff. This includes the issuing of licences and permits.

##### 11.2.5 Revenue from Agency Services

Revenue for agency services is recognised on a monthly basis once the revenue collected on behalf of agents has been quantified. The revenue recognised is in terms of the agency agreement.

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## Accounting Policies

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### Revenue recognition (continued)

#### 11.3 Revenue from Non-exchange Transactions

An inflow of resources from a Non-exchange Transaction, that meets the definition of an asset shall be recognised as an asset when it is probable that the future economic benefits or service potential associated with the asset will flow to the municipality and the fair value of the asset can be measured reliably. The asset shall be recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

A present obligation arising from a Non-exchange Transaction that meets the definition of a liability will be recognised as a liability when it is probable that an outflow of economic benefit will be required to settle the obligation and a reliable estimate of the amount can be made.

##### 11.3.1 Rates and Taxes

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised on a *Time-proportionate Basis* with reference to the principal amount receivable and effective interest rate applicable. A composite rating system charging different rate tariffs is employed. Rebates are granted to certain categories of ratepayers and are deducted from revenue.

##### 11.3.2 Fines

Fines are accounted for in accordance with GRAP 23 and from the current year the interpretation was done in accordance with IGRAP 1 as detailed below.

Fines constitute both spot fines and summonses. Revenue from the issuing of fines is recognised when it is probable that the economic benefits or service potential will flow to the municipality and the amount of the revenue can be measured reliably.

Revenue for fines is recognised when the fine is issued at the full amount of the receivable.

Assessing and recognising impairment is an event that takes place subsequent to the initial recognition of revenue charged. The municipality assesses the probability of collecting revenue when accounts fall into arrears. Such an assessment is not be made at the time of initial recognition.

##### 11.3.3 Public Contributions

Donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. Where the agreement contains a stipulation to return the asset, other future economic benefits or service potential, in the event of non-compliance to these stipulations and would be enforced by the transferor, a liability is recognised to the extent that the criteria, conditions or obligations have not been met. Where such requirements are not enforceable, or where past experience has indicated that the transferor has never enforced the requirement to return the transferred asset, other future economic benefits or service potential when breaches have occurred, the stipulation will be considered a restriction and is recognised as revenue.

Revenue from public contributions is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment are brought into use.

Assets acquired from non-exchange transactions are measured at fair value in accordance with GRAP 23.

##### 11.3.4 Government Grants and Receipts

Conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. Where the agreement contains a stipulation to return the asset, other future economic benefits or service potential, in the event of non-compliance to these stipulations and would be enforced by the transferor, a liability is recognised to the extent that the criteria, conditions or obligations have not been met. Where such requirements are not enforceable, or where past experience has indicated that the transferor has never enforced the requirement to return the transferred asset, other future economic benefits or service potential when breaches have occurred, the stipulation will be considered a restriction and is recognised as revenue.

# Umzimvubu Local Municipality

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Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### Revenue recognition (continued)

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the municipality with no future related costs, are recognised in the Statement of Financial Performance in the period in which they become receivable.

Interest earned on investments is treated in accordance with grant conditions. If it is payable to the funder it is recorded as part of the creditor and if it is the municipality's interest, it is recognised as interest earned in the Statement of Financial Performance.

Revenue is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment are brought into use.

### 11.3.5 Revenue from Recovery of Unauthorised, Irregular, Fruitless and Wasteful Expenditure

Revenue from the recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Municipal Finance Management Act (Act No 56 of 2003) and is recognised when the recovery thereof from the responsible councillors or officials is virtually certain

## 12. Provisions

Provisions are recognised when the municipality has a present or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the obligation.

The best estimate of the expenditure required to settle the present obligation is the amount that the municipality would rationally pay to settle the obligation at the reporting date or to transfer it to a third party at that time and are determined by the judgment of the management of the municipality, supplemented by experience of similar transactions and, in some cases, reports from independent experts. The evidence considered includes any additional evidence provided by events after the reporting date. Uncertainties surrounding the amount to be recognised as a provision are dealt with by various means according to the circumstances. Where the provision being measured involves a large population of items, the obligation is estimated by weighting all possible outcomes by their associated probabilities.

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision. Provisions are not recognised for future operating losses. The present obligation under an onerous contract is recognised and measured as a provision. An onerous contract is a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it – this unavoidable cost resulting from the contract is the amount of the provision to be recognised.

Provisions are reviewed at reporting date and the amount of a provision is the present value of the expenditure expected to be required to settle the obligation. When the effect of discounting is material, provisions are determined by discounting the expected future cash flows that reflect current market assessments of the time value of money. The impact of the periodic unwinding of the discount is recognised in the Statement of Financial Performance as a finance cost as it occurs.

### 12.1 Provision for Environmental Rehabilitation

Estimated long-term environmental provisions, comprising rehabilitation and landfill site closure, are based on the municipality's policy, taking into account current technological, environmental and regulatory requirements. The provision for rehabilitation is recognised as and when the environmental liability arises. To the extent that the obligations relate to the asset, they are capitalised as part of the cost of those assets. Any subsequent changes to an obligation that did not relate to the initial related asset are charged to the Statement of Financial Performance.

# Umzimvubu Local Municipality

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## Accounting Policies

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### 13. Employee benefits liabilities

The municipality changed its Accounting Policy from IAS 19 to GRAP 25 with no effect on the financial information previously did.

#### 13.1 Short-term employee benefits

Remuneration to employees is recognised in the Statement of Financial Performance as the services are rendered, except for non-accumulating benefits which are only recognised when the specific event occurs.

The municipality has opted to treat its provision for leave pay as an accrual.

The costs of all short-term employee benefits such as leave pay, are recognised during the period in which the employee renders the related service. The liability for leave pay is based on the total accrued leave days at year end and is shown as a creditor in the Statement of Financial Position. The municipality recognises the expected cost of performance bonuses only when the municipality has a present legal or constructive obligation to make such payment and a reliable estimate can be made.

#### 13.2 Post-employment Benefits

The municipality provides retirement benefits for its employees and councillors, and has both defined benefit and defined contribution post-employment plans.

##### 13.2.1 Defined Contribution Plans

A Defined Contribution Plan is a plan under which the municipality pays fixed contributions into a separate entity. The municipality has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to service in the current or prior periods.

The municipality's contributions to the defined contribution funds are established in terms of the rules governing those plans. Contributions are recognised in the Statement of Financial Performance in the period in which the service is rendered by the relevant employees. The municipality has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

##### 13.2.2 Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

#### Long-service Allowance

The municipality has an obligation to provide Long-service Allowance Benefits to all of its employees. According to the rules of the Long-service Allowance Scheme, which the municipality instituted and operates, an employee (who is on the current Conditions of Service), is entitled to a cash allowance, calculated in terms of the rules of the scheme, after 10, 15, 20, 25 and 30 years of continued service. The municipality's liability is based on an actuarial valuation. The *Projected Unit Credit Method* is used to value the liabilities. Actuarial gains and losses on the long-term incentives are accounted for through the Statement of Financial Performance.

### 14. Leases

#### 14.1 Classification

Leases are classified as **Finance Leases** where substantially all the risks and rewards associated with ownership of an asset are transferred to the municipality.

Leases of property, plant and equipment, in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as **Operating Leases**.

# Umzimvubu Local Municipality

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Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### Leases (continued)

#### 14.2 The Municipality as Lessee

##### 14.2.1 Finance Leases

Where the municipality enters into a finance lease, property, plant and equipment or intangible assets subject to finance lease agreements are capitalised at amounts equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. Corresponding liabilities are included in the Statement of Financial Position as Finance Lease Liabilities. The corresponding liabilities are initially recognised at the inception of the lease and are measured as the sum of the minimum lease payments due in terms of the lease agreement, discounted for the effect of interest. In discounting the lease payments, the municipality uses the interest rate that exactly discounts the lease payments and unguaranteed residual value to the fair value of the asset, plus any direct costs incurred. Lease payments are allocated between the finance cost and the capital repayment using the *Effective Interest Rate Method*. Finance costs are expensed when incurred.

Subsequent to initial recognition, the leased assets are accounted for in accordance with the stated accounting policies applicable to property, plant and equipment or intangibles. The lease liability is reduced by the lease payments, which are allocated between the finance cost and the capital repayment using the *Effective Interest Rate Method*. Finance costs are expensed when incurred. The accounting policies relating to derecognition of financial instruments are applied to lease payables. The lease asset is depreciated over the shorter of the asset's useful life or the lease term.

##### 14.2.2 Operating Leases

The municipality recognises operating lease rentals as an expense in the Statement of Financial Performance on a *Straight-line Basis* over the term of the relevant lease. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a *Straight-line Basis*, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

#### 14.3 The Municipality as Lessor

Amounts due from lessees under **Finance Leases** or instalment sale agreements are recorded as receivables at the amount of the municipality's net investment in the leases. Finance lease or instalment sale revenue is allocated to accounting periods so as to reflect a constant periodic rate of return on the municipality's net investment outstanding in respect of the leases or instalment sale agreements.

Rental revenue from **Operating Leases** is recognised on a *Straight-line Basis* over the term of the relevant lease.

#### 14.4 Determining whether an Arrangement contains a Lease

At inception of an arrangement, the municipality determines whether such an arrangement is, or contains a lease. A specific asset is the subject of a lease if fulfilment of the arrangement is dependent on the use of that specified asset. An arrangement conveys the right to use the asset if the arrangement conveys to the municipality the right to control the use of the underlying asset. At inception, or upon reassessment of the arrangement, the municipality separates payments and other considerations required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the municipality concludes for a finance lease that it is impracticable to separate the payments reliably, an asset and a liability are recognised at an amount equal to the fair value of the underlying asset. Subsequently the liability is reduced as payments are made and an imputed finance charge on the liability is recognised using the municipality's incremental borrowing rate.

#### 15. Borrowing costs

The municipality ceases to capitalise borrowing costs when substantially all the activities necessary to prepare the qualifying assets for its intended use has been completed. Where the construction of the qualifying asset is completed in parts and each part is capable of being used while construction continues on other parts, the municipality shall cease capitalising borrowing costs when it completes substantially all the activities necessary to prepare that part.

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Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 16. Grants in-aid

The municipality transfers money to individuals, organisations and other sectors of government from time to time. When making these transfers, the municipality does not:

- (a) Receive any goods or services directly in return, as would be expected in a purchase or sale transaction;
- (b) Expect to be repaid in future; or
- (c) Expect a financial return, as would be expected from an investment.

These transfers are recognised in the Statement of Financial Performance as expenses in the period that the events giving rise to the transfer occurred.

### 17. Value added tax

The municipality accounts for Value Added Tax on the Payments Basis in accordance with section 15(2)(a) of the Value-Added Tax Act (Act No 89 of 1991).

### 18. Unauthorised expenditure

Unauthorised Expenditure is expenditure that has not been budgeted for, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state, and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No 56 of 2003). All expenditure relating to Unauthorised Expenditure is accounted for as an expense in the Statement of Financial Performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

### 19. Irregular expenditure

Irregular Expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No 56 of 2003), the Municipal Systems Act (Act No 32 of 2000), the Public Office Bearers Act (Act No 20 of 1998), or is in contravention of the Municipality's or Municipal Entities' Supply Chain Management Policies. Irregular Expenditure excludes Unauthorised Expenditure. Irregular Expenditure is accounted for as an expense in the Statement of Financial Performance in the period it occurred and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

### 20. Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### 21. Change in accounting policies, estimates and errors

**Changes in Accounting Policies** that are affected by management have been applied retrospectively in accordance with GRAP 3 requirements, except to the extent that it is impractical to determine the period-specific effects or the cumulative effect of the change in policy. In such cases the municipality restated the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practical. Details of Changes in Accounting Policies are disclosed in the Notes to the Annual Financial Statements where applicable.

Changes in Accounting Estimates are applied prospectively in accordance with GRAP 3 requirements. Details of changes in estimates are disclosed in the Notes to the Annual Financial Statements where applicable.

Correction of Errors is applied retrospectively in the period in which the error has occurred in accordance with GRAP 3 requirements, except to the extent that it is impractical to determine the period-specific effects or the cumulative effect of the error. In such cases the municipality shall restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practical. Details of Correction of Errors are disclosed in the Notes to the Annual Financial Statements where applicable.



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Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 22. Treatment of administration and other overhead expenses

The costs of internal support services are transferred to the various services and departments to whom resources are made available.

### 23. Contingent assets and contingent liabilities

Contingent Liabilities represent a possible obligation that arises from past events and whose existence will be confirmed only by an occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the municipality. A contingent liability can also arise as a result of a present obligation that arises from past events but which is not recognised as a liability either because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability.

Contingent Assets represent possible assets that arise from past events and whose existence will be confirmed only by an occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the municipality.

Contingent Assets and Contingent Liabilities are not recognised. Contingencies are disclosed in Notes to the Annual Financial Statements.

### 24. Commitments

Commitments are future expenditure to which the municipality committed and that will result in the outflow of resources. Commitments are not recognised in the Statement of Financial Position as a liability or as expenditure in the Statement of Financial Performance, but are included in the disclosure Notes. A distinction is made between capital and current commitments.

Commitments are disclosure for:

- Approved and contracted commitments, where the expenditure has been approved and the contract has been awarded at the reporting date, where disclosure is required by a specific standard of GRAP.
- Items are classified as commitments where the municipality commits itself to future transactions that will normally result in the outflow of resources.
- Contracts that are entered into before the reporting date, but goods and services have not yet been received are disclosed in the disclosure Notes to the Annual Financial Statements.
- Other commitments for contracts that are non-cancellable or only cancellable at significant cost, should relate to something other than the business of the municipality.

### 25. Related parties

The municipality changed its Accounting Policy from IPSAS 20 to GRAP 20 with no effect on the financial information previously disclosed.

Individuals as well as their close family members, and/or entities are related parties if one party has the ability, directly or indirectly, to control or jointly control the other party or exercise significant influence over the other party in making financial and/or operating decisions. Management is regarded as a related party and comprises the Councillors, Mayor, Executive Committee Members, Municipal Manager, Chief Financial Officer and all other managers reporting directly to the Municipal Manager or as designated by the Municipal Manager.

### 26. Comparative figures

#### 26.1 Current Year Comparatives

In accordance with GRAP 1 Budgeted Amounts have been provided and forms part of the Annual Financial Statements.

#### 26.2 Prior Year Comparatives

When the presentation or classification of items in the Annual Financial Statements is amended, prior period comparative amounts are reclassified. The nature and reason for the reclassification is disclosed.

#### 26.3 Budget Information

# Umzimvubu Local Municipality

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Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### Comparative figures (continued)

The annual budget figures have been prepared in accordance with the GRAP standard and are consistent with the Accounting Policies adopted by the Council for the preparation of these Annual Financial Statements. The amounts are scheduled as a separate additional financial statement, called the Statement of Comparison of Budget and Actual amounts. Explanatory comment is provided in the statement giving reasons for overall growth or decline in the budget and motivations for over- or under spending on line items. The annual budget figures included in the Annual Financial Statements are for the municipality and do not include budget information relating to subsidiaries or associates. These figures are those approved by the Council at the beginning and during the year following a period of consultation with the public as part of the Integrated Development Plan. The budget is approved on an accrual basis by nature classification.

The approved budget covers the period from 1 July 2017 to 30 June 2018.

### 27. Events after reporting date

Events after the reporting date that are classified as adjusting events have been accounted for in the Annual Financial Statements. The events after the reporting date that are classified as Non-adjusting Events after the Reporting Date have been disclosed in Notes to the Annual Financial Statements.

# Umzimvubu Local Municipality

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Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

	2018	2017
<b>2. Inventories</b>		
Consumable stores	217 565	323 534

### Consumable Stores - Stationery

Stationery is held for own use and measured at lower of cost and current replacement cost. Inventories are expected to be utilised within 12 months after the reporting date.

No inventories have been pledged as collateral for liabilities of the municipality and no inventory is held for security.

The cost of inventories recognised as an expense during the period was R2 398 663 (2017: R193 654)

### **3. Operating lease receivable**

Operating Leases are recognised on the straight-line basis as per the requirement of GRAP 13. In respect of Non-cancellable Operating Leases the following assets have been recognised:

Current assets	5 971 779	2 427 165
Balance at the beginning of the year	2 427 165	85 727
Operating lease revenue recorded	3 544 614	2 356 196
Operating lease revenue effected	-	(14 758)
<b>Total</b>	<b>5 971 779</b>	<b>2 427 165</b>

#### **3.1 Leasing Arrangements**

The Municipality as Lessor:

Operating Leases relate to Property owned by the municipality with lease terms of between 2 to 50 years, with an option to extend. All operating lease contracts contain market review clauses in the event that the lessee exercises its option to renew. The lessee does not have an option to purchase the property at the expiry of the lease period.

#### **3.2 Amounts receivable under operating lease:**

At the Reporting Date the following minimum lease payments were receivable under Non-cancelable Operating Leases for Property, Plant and Equipment, which are receivable as follows.

Up to 1 year	2 508 755	2 638 634
2 to 5 years	10 080 072	9 860 381
More than 5 years	107 814 690	110 265 023
	<b>120 403 517</b>	<b>122 764 038</b>

The impact of charging the escalations in operating leases on a straight-line basis over the term of the lease has been an increase of R 3,544,614 in current year's income, disclosed under Rental of facilities and equipment in the Statement of Financial Performance.

No Operating leases have been pledged as collateral for liabilities of the municipality and is not held for security.

# Umzimvubu Local Municipality

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Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

	2018	2017
<b>4. Receivables from non-exchange transactions</b>		
Fines	7 074 376	6 783 348
Sundry debtors	14 055	63 872
Levies to Assessment rates	31 427 885	22 173 510
Other taxes to Interest/penalty charges	8 700 491	5 673 878
Provision for impairment - Consumer debtors	(21 192 687)	(15 119 666)
Provision for impairment - Traffic fines	(3 012 271)	(3 245 246)
Provision for impairment - Interest/penalty charges	(5 915 201)	(3 953 032)
	<b>17 096 648</b>	<b>12 376 664</b>

The municipality does not hold deposits or other security for its Receivables.

None of the Receivables have been pledged as security for the municipality's financial liabilities.

The management of the municipality is of the opinion that the carrying value of Receivables approximate their fair values.

### Ageing of Receivables from Non-exchange Transactions

Receivables from non-exchange transactions which are less than 1 month past due are not considered to be impaired. At 30 June 2018, R 15 002 721 (2017: R 11 008 110) were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

1 month past due	282 550	207 026
2 months past due	259 194	89 456
3 months past due	16 119 194	10 711 628

30 June 2018	Current	31 - 60 days	61 - 90 days	90 days +	Total
Assessment rates debtors	1 024 054	839 945	817 539	28 746 347	31 427 885
Sundry debtors	-	-	-	14 055	14 055
Traffic fines	13 712	15 605	11 283	7 033 776	7 074 376
Interest/Penalty charges	262 097	267 603	261 384	7 909 407	8 700 491
Subtotal	1 299 863	1 123 153	1 090 206	43 703 585	47 216 807
Less: impairment	(864 152)	(840 604)	(831 012)	(27 584 391)	(30 120 159)
	<b>435 711</b>	<b>282 549</b>	<b>259 194</b>	<b>16 119 194</b>	<b>17 096 648</b>

30 June 2017	Current	31 - 60 days	61-90 days	90 days +	Total
Assessment rates debtors	832 066	427 969	357 220	20 556 255	22 173 510
Sundry Debtors	13 023	41 793	-	9 055	63 871
Traffic Fines	3 048 462	71 700	52 200	8 536 721	11 709 083
Interest/Penalty charges	201 822	187 451	184 623	5 099 982	5 673 878
Subtotal	4 095 373	728 913	594 043	34 202 013	39 620 342
Less: Impairment	(2 726 820)	(521 888)	(504 587)	(23 490 385)	(27 243 679)
	<b>1 368 553</b>	<b>207 025</b>	<b>89 456</b>	<b>10 711 628</b>	<b>12 376 662</b>

### Reconciliation of provision for impairment of receivables from non-exchange transactions

Opening balance	27 243 679	23 469 693
Impairment Losses recognised	9 098 935	3 773 986
	<b>36 342 614</b>	<b>27 243 679</b>

The Provision for impairment on Receivables exists predominantly due to the possibility that these debts will not be recovered. Loans and receivables were assessed individually are grouped together at the Statements of Financial Position as financial assets with similar credit risk characteristics and collectively assessed for impairment.

# Umzimvubu Local Municipality

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Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

	2018	2017
<b>5. VAT receivable</b>		
VAT	5 768 651	4 352 684
<p>VAT is accounted for on the cash basis. Only once payment is received from debtors, is VAT paid over to SARS and similarly only once cash is paid out to a creditor, will input be claimed from SARS.</p> <p>No interest is payable to SARS if the VAT is paid over timeously, but interest for late payments is charged according to SARS policies. The municipality has financial risk policies in place to ensure that payments are affected before the due date.</p> <p>VAT is not pledged as security for any of the municipality's financial liabilities</p>		
<b>6. Receivables from Exchange transactions</b>		
<b>Gross balances</b>		
Refuse	5 287 496	3 869 433
Value Added Tax (VAT)	1 302 305	1 219 376
Land sales	290 763	290 763
Other	1 522 775	1 684 299
<b>Less: Allowance for impairment</b>		
Refuse	(3 207 549)	(3 136 154)
Value Added Tax (VAT)	(453 155)	(557 496)
Land sales	(232 596)	(232 596)
Other (specify)	(1 235 474)	-
	<b>(5 128 774)</b>	<b>(3 926 246)</b>
<b>Net balance</b>		
Refuse	2 079 947	733 279
Value Added Tax (VAT)	849 149	661 879
Other Debtors	287 301	1 684 298
Land Sales	58 167	58 167
	<b>3 274 564</b>	<b>3 137 623</b>

Receivables from Exchange Transactions are billed monthly, latest end of the month. No interest is charges on Receivables until the end of the following month. Thereafter interest is charged at 10% per annum as determined by the council on the outstanding balance.

The municipality did not pledge any of its Receivables as security for borrowing purposes.

The management of the municipality is of the opinion that the carrying value of Receivables approximate their fair value.

# Umzimvubu Local Municipality

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Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

	2018	2017
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### 6. Receivables from Exchange transactions (continued)

#### Impairment

Balance at the beginning of the year	3 926 247	4 263 008
Impairment Losses recognised (reversed)	597 936	(336 761)
	<b>4 524 183</b>	<b>3 926 247</b>

#### 30 June 2018

	Current	31-60 days	61-90 days	91-120 days	Total
Refuse	157 168	103 856	100 717	4 925 755	5 287 496
Other	27 585	29 935	25 364	1 439 887	1 522 771
Value Added Tax (VAT)	9 599	15 678	15 232	1 261 796	1 302 305
Land sales	-	-	-	290 763	290 763
Subtotal	194 352	149 469	141 313	7 918 201	8 403 335
Less: Impairment	(81 966)	(95 022)	(94 202)	(4 857 584)	(5 128 774)
	<b>112 386</b>	<b>54 447</b>	<b>47 111</b>	<b>3 060 617</b>	<b>3 274 561</b>

#### 30 June 2017

	Current	31-60 days	61-90 days	91-120 days	Total
Refuse	125 939	111 731	104 244	3 527 520	3 869 434
Other	154 579	909 049	-	(60 906)	1 002 722
Value Added Tax (VAT)	17 947	16 037	15 360	1 170 032	1 219 376
Rental	35 019	2 000	-	644 558	681 577
Land sales	-	-	-	290 763	290 763
Subtotal	333 484	1 038 817	119 604	5 571 967	7 063 872
Less: Impairment	(92 011)	(90 670)	(89 449)	(3 654 117)	(3 926 247)
	<b>241 473</b>	<b>948 147</b>	<b>30 155</b>	<b>1 917 850</b>	<b>3 137 625</b>

#### Past due but not impaired

Receivables from exchange transactions which are less than 1 month past due are not considered to be impaired. At 30 June 2018, R 3 437 265 (2017: R 2 896 152) were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

1 month past due	54 448	948 147
2 month past due	47 110	30 155
3 month past due	3 060 618	1 917 850

### 7. Cash and cash equivalents

Cash and cash equivalents consist of:

Cashbook (Operating Account)	1 878 479	846 200
Current Investments	45 790 246	45 085 959
	<b>47 668 725</b>	<b>45 932 159</b>

For the purposes of the Statements of Financial Position and the Cash Flow Statement, Cash and Cash equivalents include Investments in Money Market Instruments.

# Umzimvubu Local Municipality

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Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

2018 2017

### 7. Cash and cash equivalents (continued)

The municipality had the following bank accounts

Account number / description	Bank statement balances		Cash book balances	
	30 June 2018	30 June 2017	30 June 2018	30 June 2017
Primary Account FNB a/c No: 620 2218 3727	1 623 831	807 630	1 658 339	846 200
FNB - Service Delivery Reserve- 620-3325-4723	15 278 886	5 014 444	15 278 886	5 014 444
FNB - Operational Investment - 620-2945-0715	3 815 340	9 697 399	3 815 340	9 697 399
FNB - Municipal Infrastructure Grant (MIG) - 620-8603-6714	267 387	5 714 519	267 387	5 714 519
FNB - Guarantee Investment - 620-6874-2157	282 599	272 593	282 599	272 593
FNB - Financial Management Grant (FMG) - 622-7618-7294	55 668	186 543	55 668	186 543
FNB - Electrification Programme - 622-8856-0925	73 449	13 964	73 449	13 964
Nedbank - Capital Replacement Reserve Account - 788-111-786	26 016 917	24 186 495	26 016 917	24 186 495
Traffic fine bank account	220 473	-	220 140	-
<b>Total</b>	<b>47 634 550</b>	<b>45 893 587</b>	<b>47 668 725</b>	<b>45 932 157</b>

**Call Deposits** are investments with a maturity period of 3 months or less and earn interest rates varying from 3.9% to 7.0% (2017: 4.82% to 6.5%) per annum.

**Notice Deposits** are investments with a maturity period of less than 12 months and earn interest rates varying from 5.075% to 5.68% (2017 (5.075% to 5.68%) per annum.

The municipality does not have any overdraft facilities with its banker and therefore does not incur interest on overdrawn current accounts. Interest is earned at different rates per annum on favourable balances.

The municipality did not pledge any of its Cash and Cash Equivalents as a collateral for its financial liabilities.

No restrictions have been imposed on the municipality in terms of the utilisation of its Cash and Cash Equivalents except for electricity guarantee investment.

The management of the municipality is of the opinion that the carrying value of Current Investment Deposits, Bank Balances, Cash and Cash Equivalents recorded at amortised cost in the Interim Financial Statements approximate their fair values.

The fair value of current Investment Deposits, Bank Balances, Cash and Cash Equivalents was determined after considering the standard terms and conditions of agreements entered into between the municipality and financial institutions.

# Umzimvubu Local Municipality

(Registration number EC442)

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

### 8. Investment property

	2018			2017		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	141 419 623	-	141 419 623	141 419 623	-	141 419 623

#### Reconciliation of investment property - 2018

	Opening balance	Total
Investment property	141 419 623	141 419 623

#### Reconciliation of investment property - 2017

	Opening balance	Total
Investment property	141 419 623	141 419 623

All of the municipality's Investment Property is held under freehold interests and no Investment Property had been pledged as a security for any liabilities of the municipality. Refer to Appendix "B" for more detail on Investment Property.

#### 8.1 Investment Property carried at Cost

The municipality's Investment Properties are accounted for using the fair value model.

#### 8.2 Impairment of Investment Property

No impairment losses have been recognised on Investment Property of the municipality at the reporting date.



# Umzimvubu Local Municipality

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Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

### 9. Property, plant and equipment

	2018			2017		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	13 375 976	-	13 375 976	13 375 976	-	13 375 976
Machinery and Equipment	8 169 845	(5 986 883)	2 182 962	8 633 696	(6 332 323)	2 301 373
Furniture and Office Equipment	10 160 894	(6 270 142)	3 890 752	9 822 781	(5 666 171)	4 156 610
Transport Assets	11 086 869	(4 262 423)	6 824 446	10 289 283	(3 460 848)	6 828 435
Computer equipment	9 049 714	(5 989 609)	3 060 105	9 288 845	(5 075 961)	4 212 884
Roads Infrastructure	1 883 770 935	(1 101 117 196)	782 653 739	1 830 511 602	(978 353 228)	852 158 374
Community Assets	38 983 283	(13 084 258)	25 899 025	37 848 622	(11 194 768)	26 653 854
Other Assets	174 046 364	(75 924 420)	98 121 944	168 130 004	(72 293 683)	95 836 321
Solid Waste Infrastructure	9 640 049	(2 061 773)	7 578 276	6 590 605	(1 750 451)	4 840 154
Work in Progress	80 323 333	-	80 323 333	159 884 952	-	159 884 952
Electrical Infrastructure	4 945 651	(1 542 588)	3 403 063	4 834 874	(1 377 659)	3 457 215
<b>Total</b>	<b>2 243 552 913</b>	<b>(1 216 239 292)</b>	<b>1 027 313 621</b>	<b>2 259 211 240</b>	<b>(1 085 505 092)</b>	<b>1 173 706 148</b>

# Umzimvubu Local Municipality

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Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

### 9. Property, plant and equipment (continued)

#### Reconciliation of property, plant and equipment - 2018

	Opening balance	Additions	Disposals	Transfers received	Transfers	Depreciation	Total
Land	13 375 976	-	-	-	-	-	13 375 976
Machinery and Equipment	2 301 373	933 005	(334 381)	-	-	(717 035)	2 182 962
Furniture and Office Equipment	4 156 610	651 907	(63 483)	-	-	(854 282)	3 890 752
Transport Assets	6 828 435	2 687 585	(1 247 517)	-	-	(1 444 057)	6 824 446
Computer equipment	4 212 884	625 917	(112 941)	-	-	(1 665 755)	3 060 105
Roads Infrastructure	852 158 374	-	(129 909 989)	184 156 990	-	(123 751 636)	782 653 739
Community Assets	26 653 854	-	-	1 134 661	-	(1 889 490)	25 899 025
Other Assets	95 836 321	-	-	4 928 688	-	(2 643 066)	98 121 944
Solid waste Infrastructure	4 840 154	-	-	3 049 444	-	(311 322)	7 578 276
Work in Progress	159 884 952	113 818 943	-	-	(193 380 562)	-	80 323 333
Electrical Infrastructure	3 457 215	-	-	110 777	-	(164 929)	3 403 063
	<b>1 173 706 148</b>	<b>118 717 357</b>	<b>(131 668 311)</b>	<b>193 380 562</b>	<b>(193 380 562)</b>	<b>(133 441 574)</b>	<b>1 027 313 621</b>

## Umzimvubu Local Municipality

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Annual Financial Statements for the year ended 30 June 2018

### Notes to the Annual Financial Statements

#### 9. Property, plant and equipment (continued)

##### Reconciliation of property, plant and equipment - 2017

	Opening balance	Additions	Disposals	Transfers received	Transfers	Reallocation to Expenses	Depreciation	Total
Land	13 375 976	-	-	-	-	-	-	13 375 976
Machinery and Equipment	3 372 784	644 959	(150 554)	-	-	-	(1 565 816)	2 301 373
Furniture and Office Equipment	4 210 941	1 096 218	(953)	-	-	-	(1 149 596)	4 156 610
Transport Assets	5 314 116	3 047 179	(163 632)	-	-	-	(1 369 228)	6 828 435
Computer equipment	3 424 705	2 590 775	(183 093)	-	-	-	(1 619 503)	4 212 884
Roads Infrastructure	892 024 046	-	-	75 447 599	-	-	(115 313 271)	852 158 374
Community	20 999 194	-	-	7 406 896	-	-	(1 752 236)	26 653 854
Other Assets	86 792 188	-	-	12 567 063	-	-	(3 522 930)	95 836 321
Solid waste infrastructure	5 150 655	-	-	-	-	-	(310 501)	4 840 154
Work in Progress	155 672 254	99 761 949	-	-	(95 429 583)	(119 669)	-	159 884 951
Electrical infrastructure	3 612 783	-	-	8 025	-	-	(163 593)	3 457 215
	<b>1 193 949 642</b>	<b>107 141 080</b>	<b>(498 232)</b>	<b>95 429 583</b>	<b>(95 429 583)</b>	<b>(119 669)</b>	<b>(126 766 674)</b>	<b>1 173 706 147</b>

#### 9. PROPERTY, PLANT AND EQUIPMENT (Continued)

The remaining useful life of property plant and equipment were considered and adjusted in accordance with its condition. For detail of this exercise please see Note 8.5 to the Financial Statements.

Refer to Appendices "B, C and E (4)" for more detail on Property, Plant and Equipment, including those in the course of construction.

##### 9.1 Gross Carrying Amount of Property, Plant and Equipment that is fully depreciated and still in use

There are no Property, Plant and Equipment that is fully depreciated at year-end and still in use by the municipality.

##### 9.2 Carrying Amount of Property, Plant and Equipment retired from active use and held for disposal

No Property, Plant and Equipment were retired from active use and held for disposal at the end of the financial year. Investment assets shall not be depreciated, but shall be annually valued at balance sheet date to determine their firm market values.

# Umzimvubu Local Municipality

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Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

### 9. Property, plant and equipment (continued)

#### 9.3 Assets pledged as security

The municipality did not pledge any of its assets as security.

#### 9.4 Impairment of Property, Plant and Equipment

No impairment losses have been recognised on Property, Plant and Equipment of the municipality at the reporting date for the current year.

#### 9.5 Change in Estimate - Useful Life of Property, Plant and Equipment reviewed

A change in the remaining estimated useful life of various assets of the municipality has resulted in the following decreases in depreciation for the mentioned departments for the financial year:

#### Total Change in Remaining Estimated for Useful Life of Property, Plant and Equipment

Computer Equipment	335 218	100 556
Furniture and Office equipment	297 203	94 592
Transport assets	151 402	-
Plant & equipment	187 277	135 600
Machinery and equipment	1 559	2 107
Road Infrastructure	-	923 857
Security measures	-	33 266
	<b>972 659</b>	<b>1 289 978</b>

#### 9.6 Work-in-Progress

The municipality has incurred expenditure on capital projects which were not completed at year end.

#### Total Carrying amount of Work-in-progress

Buildings	47 442 190	35 901 618
Infrastructure: Electricity	5 890 278	96 400 714
Infrastructure: Roads	23 039 897	27 059 369
Infrastructure: Sanitation	3 729 103	523 250
	<b>80 101 468</b>	<b>159 884 951</b>

# Umzimvubu Local Municipality

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Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

2018 2017

### 9. Property, plant and equipment (continued)

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

### 10. Intangible assets

The movement in Intangible Assets is reconciled as follows:

	2018			2017		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software, other	4 986 908	(2 974 668)	2 012 240	4 954 948	(2 666 388)	2 288 560

#### Reconciliation of intangible assets - 2018

	Opening balance	Additions	Amortisation	Total
Computer software, other	2 288 560	370 100	(646 420)	2 012 240

#### Reconciliation of intangible assets - 2017

	Opening balance	Additions	Disposals	Amortisation	Total
Computer software, other	1 723 895	1 216 899	(27 614)	(624 620)	2 288 560

The amortisation expense has been included in the line item "Depreciation and Amortisation" in the Statement of Financial Performance (see Note 30).

All of the municipality's Intangible Assets are held under freehold interests and no Intangible Assets had been pledged as security for any liabilities of the municipality.

Computer Software are issued under license and are restricted to the conditions under which each license are issued.

Refer to Appendix "B" for more detail on Intangible Assets.

#### 10.1 Intangible Assets with Indefinite Useful Lives

The municipality amortises all its Intangible Assets except for the Website, which has indefinite useful lives.

The useful lives of the Intangible Assets remain unchanged from the previous year.

#### 10.2 Impairment of Intangible Assets

No impairment losses have been recognised on Intangible Assets of the municipality at the reporting date.

### 11. Heritage assets

	2018			2017		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Mayoral chain	17 719	-	17 719	17 719	-	17 719

# Umzimvubu Local Municipality

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Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

	2018	2017
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### 11. Heritage assets (continued)

All of the municipality's Heritage Assets are held under freehold interests and no Heritage Assets had been pledged as security for any liabilities of the municipality.

No restrictions apply to any of the Heritage Assets of the municipality.

Refer to Appendix "B" for more detail on Heritage Assets.

#### 11.1 Impairment of Heritage Assets

No impairment losses have been recognised on Heritage Assets of the municipality at the reporting.

#### 11.2 Heritage Assets measured after recognition using the Revaluation Model

The municipality's Heritage Assets are accounted for according to the cost model and therefore no fair value has been determined.

#### Reconciliation of heritage assets 2018

	Opening balance	Total
Art Collections, antiquities and exhibits	17 719	17 719

#### Reconciliation of heritage assets 2017

	Opening balance	Total
Art Collections, antiquities and exhibits	17 719	17 719

### 12. Payables from exchange transactions

Trade payables	7 977 141	4 330 980
Payments received in advanced	73 787	53 635
Retentions	903 588	1 408 305
Staff leave	6 220 283	5 001 128
Bonus accrual	3 133 403	2 887 779
Value Added Tax - Output	599 007	459 679
	<b>18 907 209</b>	<b>14 142 215</b>

The municipality did not default on any payment of its Creditors. No terms for payment have been negotiated by the municipality.

The management of the municipality is of the opinion that carrying value of Creditors approximates their fair values.

The fair value of Creditors was determined after considering the standard terms and conditions of agreements entered into between the municipality and other parties.

### 13. Payables from Non-Exchange Transactions

Payments received in advance	4 535 292	2 235 827
Hall Deposits	76 795	48 757
	<b>4 612 087</b>	<b>2 284 584</b>

No credit period exists for Payables from Non-Exchange Transactions, neither has any credit period been arranged. No interest is charges on outstanding amounts.

The management of the municipality is of the opinion that carrying value of Creditors approximates their fair values.

# Umzimvubu Local Municipality

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Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

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2018

2017

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### 13. Payables from Non-Exchange Transactions (continued)

The fair value of Creditors was determined after considering the standard terms and conditions of agreements entered into between the municipality and other parties.

# Umzimvubu Local Municipality

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Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

	2018	2017
<b>14. Employee benefit obligations</b>		
<b>Long Service Awards Liability</b>		
Total	1 093 045	1 201 036
<b>Long Service Awards Liability</b>		
Balance at Beginning of year	1 201 036	1 221 552
Increase in provision due to change in estimate	375 798	181 912
Balance at year end	1 576 834	1 403 464
Transfer to Current Provision	(435 171)	(202 428)
	<b>1 141 663</b>	<b>1 201 036</b>

The municipality operates an unfunded defined benefit plan for all its employees. Under the plan, a Long-service Award is payable after 5 years of continuous service, and every 5 years of continuous service thereafter to 45 years of service inclusive, to employees. The provision is an estimate of the long-service based on historical staff turnover. No other long-service benefits are provided to employees.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2018 by Mr C Weiss, Fellow of the Actuarial Society of South Africa. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

At year end, 145 (2017: 143) employees were eligible for Long-service Awards.

The Current-service Cost for the year ending 30 June 2018 is estimated to be R226,520, whereas the cost for the ensuing year is estimated to be R230 823.

The principal assumptions used for the purposes of the actuarial valuations were as follows:	2018	2017
Discount Rate	8.34%	8.24%
Cost Inflation Rate	6.00%	6.06%
Net Effective Discount Rate	2.21%	2.06%
Expected Retirement Age	58	58

### Movements in the present value of the Defined Benefit Obligation were as follows:

Balance at the beginning of the year	1 403 464	1 352 536
Current service costs	226 520	230 935
Interest cost	107 480	105 204
Benefits paid	(202 428)	(205 155)
Actuarial losses / (gains)	41 798	(80 056)
	<b>1 576 834</b>	<b>1 403 464</b>
Non-current liabilities	1 141 663	1 201 036
Current liabilities	435 171	202 428
	<b>1 576 834</b>	<b>1 403 464</b>



# Umzimvubu Local Municipality

(Registration number EC442)

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

	2018	2017
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### 14. Employee benefit obligations (continued)

The fair value of plan assets includes:

**The amounts recognised in the Statement of Financial Performance are as follows (Note)**

Current service cost	226 520	230 935
Interest cost	107 480	105 204
Actuarial losses / (gain)	(41 798)	(80 056)
	<b>292 202</b>	<b>256 083</b>

**The history of experienced adjustment is as follows:**

	2018	2017	2016	2015	2014
Present Value of Defined Benefit Obligation	1 576 834	1 403 464	1 352 536	1 171 810	977 565

### 15. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

**Unspent conditional grants and receipts**

Municipal Infrastructure Grant	104	5 465 679
Financial Management Grant	-	389
Department of Cooperative Government & Traditional Affairs (COGTA)	213 178	121 330
	<b>213 282</b>	<b>5 587 397</b>

The nature and extent of government grants recognised in the annual financial statements and an indication of other forms of government assistance from which the municipality has directly benefited.

Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

See note 27 for reconciliation of grants from National/Provincial Government.

These amounts are invested in a ring-fenced investment until utilised.

### 16. Provisions

#### Reconciliation of provisions - 2018

	Opening Balance	Additions	Total
Provision for rehabilitation of Land-fill sites	3 357 542	319 554	3 677 096

#### Reconciliation of provisions - 2017

	Opening Balance	Additions	Total
Provision for rehabilitation of Land-sites	3 065 758	291 784	3 357 542

# Umzimvubu Local Municipality

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Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

	2018	2017
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### 16. Provisions (continued)

**The movement in the Provision for Rehabilitation of Land-fill Sites is reconciled as follows:**

Balance at beginning of year	3 357 542	3 065 758
Increase in provision due to discounting of interest	319 554	291 784
	<b>3 677 096</b>	<b>3 357 542</b>

#### 16.1 Rehabilitation of Land-fill Sites

In terms of the licensing of the landfill refuse sites, the municipality will incur licensing and rehabilitation costs of R3,677,096 (2017: R3,357,542) to restore the sites at the end of their useful lives. Provision has been made for the net present value of the future cost, using the average cost of borrowing interest rate.

Assumptions and estimates are based on a operational life expectancy of 25 years.

Actual data from the recent closures and rehabilitation of landfill sites in the Eastern Cape were used to extrapolate expected cost for the Umzimvubu landfill sites.

The valuation was done by A. Bowers (PrEng) and M. Koch from EMS Advisory (Pty) based in Cape Town, Bloemfontein and Pretoria, (2017: Z.S. Godlimpi and H.A Roets from Scientific Roets Engineering Services based in Kokstad.)

The municipality will incur rehabilitation cost on its two dumping/landfill sites in the 2017/18. Provision has been made for the net present value.

### 17. Accumulated surplus

Capital Replacement Reserve (CRR)	26 016 917	24 186 495
Accumulated Surplus due to the results of operations	1 191 493 660	1 335 020 184
<b>Total Accumulated Surplus</b>	<b>1 217 510 577</b>	<b>1 359 206 679</b>

The **Capital Replacement Reserve** is a reserve to finance future capital expenditure and is fully invested in ring-fenced Financial Instrument Investments.

Refer to Statement of Changes in Net Assets for more detail and the movement on Accumulated Surplus.

### 18. Sale of goods

#### Sale of goods and rendering of services

Sundry income	1 825	31
Advertising	263 445	109 701
Entrance fees	126 337	2 193
Rezoning Application	1 681	17 105
Building Plan Fees	129 383	193 512
Funeral Plot Fees	29 064	21 884
Clearance Certificate	3 853	4 895
Rezoning Certificate	3 146	628
Tender Fees	498 414	239 607
Subdivision	13 840	14 331
Street Trading	29	11 325
	<b>1 071 017</b>	<b>615 212</b>

# Umzimvubu Local Municipality

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Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

	2018	2017
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### 19. Service charges

Removal of refuse	1 159 426	700 628
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The amounts disclosed above for revenue from Service Charges are in respect of services rendered which are billed to the consumers on a monthly basis according to approved tariffs.

### 20. Rental of facilities and equipment

#### Facilities and equipment

Rental for Municipal Properties	2 654 027	702 547
Rental of equipment	8 971	13 381
Rental revenue halls	109 068	86 282
Rental of Amenities	110 645	111 809
Rental income - Straight lining	3 544 615	2 356 196
	<b>6 427 326</b>	<b>3 270 215</b>

Rental revenue earned on Facilities and Equipment is in respect of Non-Financial Assets rented out.

### 21. Interest on debtors

Outstanding billing debtors	2 926 497	2 308 724
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### 22. Income from Agency Services

Vehicle Registration	2 051 565	1 702 919
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### 23. Licences and Permits

Drivers and learners licenses	2 408 697	2 086 314
Trading licences	234 096	299 059
	<b>2 642 793</b>	<b>2 385 373</b>

### 24. Operating Income

Transfers and Subsidies (LG SETA)	115 850	146 260
Fines Penalties and Forfeits (Pound Fees)	801 126	548 758
Sundry Income	347 419	44 677
Operating revenue	854 367	805 057
	<b>2 118 762</b>	<b>1 544 752</b>

The amounts disclosed above for Other Revenue are in respect of services, other than described in Note 18 to 23, rendered which are billed to or paid for by the users as the services are required according to approved tariffs.

### 25. Interest earned- External Investments

#### Interest revenue

Bank	621 791	364 574
Interest on investments	5 676 390	5 022 562
	<b>6 298 181</b>	<b>5 387 136</b>

Municipal investments are held at FNB and Nedbank earning interest rates varying from 7.3 % to 8.1%.

# Umzimvubu Local Municipality

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Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

	2018	2017
<b>26. Property rates</b>		
<b>Rates received</b>		
Residential	3 651 532	3 120 343
Commercial	9 561 273	4 200 881
State	1 858 846	7 018 116
	<b>15 071 651</b>	<b>14 339 340</b>
<b>Valuations</b>		
Residential	398 639 447	277 856 211
Commercial	299 499 975	258 012 967
State	476 627 254	468 535 213
	<b>1 174 766 676</b>	<b>1 004 404 391</b>
Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.		
A general rate of R -0.0157 (2017: R -0.0148) is applied to residential properties, 0.0315 for commercial properties, 0.0039 for government and 0.0190 is applied to property valuations to determine assessment rates. Rebates of 15 000 (2017: 15 000) are granted to residential property owners.		
Rates are levied monthly on property owners and are payable the 7th of each month. Property owners can request that the full amount for the year be raised in July in which case the amount has to be paid by 30 September. Interest is levied at a rate determined by council on outstanding rates amounts.		
In accordance with Section 17(h) of the Municipal Properties Rates Act the first R15 000 of the market value of residential properties are exempted from assessment rates. The General valuation Roll that is being implemented was compiled in 2012 and implemented on 01 July 2013 with subsequent annual supplementary valuation rolls done every year. There are four supplementary valuation rolls that were conducted in the cycle of this valuation Roll. Supplementary valuation roll had saw reductions in residential property values.		
<b>27. Government grants and subsidies</b>		
<b>Operating grants</b>		
Equitable share	175 184 000	162 712 000
Provincial Department of Arts and Culture	-	9 132 688
<b>Total Operating grants</b>	<b>175 184 000</b>	<b>171 844 688</b>
<b>Conditional grants</b>		
Municipal infrastructure grant	52 655 575	46 559 537
Integrated national electrification grant	44 999 990	17 500 000
Expanded Public Works Program	2 537 000	1 626 000
Financial Management Grant	1 700 434	1 624 685
National MSIG	-	352
Department Economic Affairs and Trade (DEAT)	-	389 025
Provincial: Department of Cooperative Government & Traditional Affairs (COGTA)	258 152	339 578
	<b>102 151 151</b>	<b>68 039 177</b>
<b>Total Capital grants and Operating grants</b>	<b>277 335 151</b>	<b>239 883 865</b>
<b>Summary of transfers:</b>		
Conditional met - transferred to Revenue: Capital Expenditure	97 655 565	68 039 177
Conditions met - transferred to Revenue: Operational Expenses	179 679 586	171 844 688

# Umzimvubu Local Municipality

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Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

	2018	2017
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### 27. Government grants and subsidies (continued)

**277 335 151    239 883 865**

#### Equitable Share

In terms of the Constitution, part of this grant is used to subsidise the provision of basic services to indigent community members on application. Households where the total gross monthly income of all occupants over 18 years of age does not exceed the earning of a combined gross income equivalent to less than two times the Government pension grant as prescribed by the National Government of Social Development, qualify for a subsidy of the essential services package.

#### Municipal Infrastructure Grant

Balance unspent at beginning of year	5 465 679	29 216
Current-year receipts	47 190 000	51 996 000
Conditions met - transferred to revenue	(52 655 575)	(46 559 537)
	<b>104</b>	<b>5 465 679</b>

Conditions still to be met - remain liabilities (see note 15).

The MIG grant was allocated for the construction of roads, basic sewerage and water infrastructure as part of the upgrading poor households micro-enterprises and social institutions, to provide for new rehabilitation and upgrading of municipal infrastructure.

#### Financial Management Grant

Balance unspent at beginning of year	389	73
Current-year receipts	1 700 000	1 625 000
Conditions met - transferred to revenue	(1 700 434)	(1 624 684)
Transfer to internal fund	45	-
	<b>-</b>	<b>389</b>

Conditions still to be met - remain liabilities (see note 15).

The FMG grant is paid to help the Municipality in implementing the financial management reforms required by MFMA.

#### Expanded Public Works Programme Grant

Current-year receipts	2 537 000	1 626 000
Conditions met - transferred to revenue	(2 537 000)	(1 626 000)
	<b>-</b>	<b>-</b>

The grant is utilised of creating job opportunities in environmental and cultural, infrastructure and the social eradication of poverty and capacity building programs.

#### Integrated National Electrification Programme

Current-year receipts	44 999 990	17 500 000
Conditions met - transferred to revenue	(44 999 990)	(17 500 000)
	<b>-</b>	<b>-</b>

Conditions still to be met - remain liabilities (see note 15).

The grant is utilised for upgrading of substations and electrical installations within the greater municipal area.

# Umzimvubu Local Municipality

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## Notes to the Annual Financial Statements

	2018	2017
<b>27. Government grants and subsidies (continued)</b>		
<b>Municipal Systems Improvement Grant</b>		
Balance unspent at beginning of year	-	352
Conditions met - transferred to revenue	-	(352)
	-	-
<b>Department of Economic Affairs and Trade (DEAT)</b>		
Balance unspent at beginning of year	-	389 025
Conditions met - transferred to revenue	-	(389 025)
	-	-
<b>Department of Cooperative Government &amp; Traditional Affairs (COGTA)</b>		
Balance unspent at beginning of year	121 330	110 908
Current-year receipts	350 000	350 000
Conditions met - transferred to revenue	(258 152)	(339 578)
	<b>213 178</b>	<b>121 330</b>
Conditions still to be met - remain liabilities (see note 15).		
The grant is utilised for funding the library activities of the municipality.		
<b>Provincial Department of Arts &amp; Culture</b>		
Ema-Xesibeni Library	-	9 132 688
The Department of Arts and Culture built a Library in Ema-Xesibeni and donated it to the municipality.		
<b>28. Fines</b>		
Traffic fines	1 456 324	2 262 968
<b>29. Employee related costs</b>		
Basic	45 144 499	40 656 857
Bonus	2 952 549	4 031 973
Medical aid - company contributions	3 241 928	3 054 321
UIF	454 147	282 126
WCA	711 226	550 000
SDL	677 666	481 245
Leave pay provision charge	549 643	-
Contribution to pension funds	5 459 304	4 983 267
Travel, motor car, accommodation, subsistence and other allowances	3 909 693	3 759 660
Housing benefits and allowances	1 916 907	1 783 610
Bargaining Council Levy	17 260	16 075
Standby Allowance	138 647	328 046
	<b>65 173 469</b>	<b>59 927 180</b>

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## Notes to the Annual Financial Statements

	2018	2017
<b>29. Employee related costs (continued)</b>		
<b>Remuneration of municipal manager - GPT Nota</b>		
Annual Remuneration	783 416	1 090 700
Allowances	456 993	310 888
Bonuses	65 285	-
Contributions to pension funds	11 798	159 116
Termination benefits	72 648	-
	<b>1 390 140</b>	<b>1 560 704</b>
The Municipal Manager was engaged as the 01 July 2017. The previous term ended on 30th April 2017. A month to month contract was agreed upon between the Municipality and the outgoing Municipal Manager for the period in - between.		
<b>Remuneration of Chief Financial Officer - X Venn</b>		
Annual Remuneration	663 415	769 663
Allowance	386 992	300 957
Bonuses	55 285	-
Contributions to pension funds	12 049	53 745
	<b>1 117 741</b>	<b>1 124 365</b>
<b>Remuneration of Manager Community Service - M Sineke</b>		
Annual Remuneration	663 415	765 689
Allowance	386 992	352 917
Bonuses	55 285	-
Contributions to pension funds	12 008	1 785
	<b>1 117 700</b>	<b>1 120 391</b>
<b>Remuneration of Corporative Service - N Kubone</b>		
Annual Remuneration	663 415	769 663
Allowance	386 992	316 678
Bonuses	55 285	-
Contributions to pension funds	12 047	38 024
	<b>1 117 739</b>	<b>1 124 365</b>
<b>Local Economic Development - SL Batyi</b>		
Annual Remuneration	663 415	765 689
Allowance	386 992	301 106
Performance Bonuses	55 285	53 726
Contributions to pension funds	12 049	-
Acting allowance	-	126 365
	<b>1 117 741</b>	<b>1 246 886</b>

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## Notes to the Annual Financial Statements

	2018	2017
<b>29. Employee related costs (continued)</b>		
<b>Infrastructure and Planning - SP Ntonga</b>		
Annual Remuneration	663 415	759 728
Allowance	386 992	352 917
Bonuses	55 285	-
Contributions to pension funds	12 104	1 785
	<b>1 117 796</b>	<b>1 114 430</b>

### Chief Operations Officer - Mr S Kulu

Annual Remuneration	-	204 647
Allowance	-	49 688
Contributions to pension funds	-	8 833
Termination benefits	-	111 265
	<b>-</b>	<b>374 433</b>

### Chief Operations Officer - N Zembe

Annual Remuneration	643 225	-
Allowance	375 215	-
Bonuses	53 602	-
Contributions to pension funds	10 698	-
	<b>1 082 740</b>	<b>-</b>

Mrs N Zembe was appointed to the post of Manager Special Programmes (SPU) and Communications as of 1 July 2017. Mr S Kulu was the Manager SPU at the commencement of the previous financial year and vacated the post during August 2016. At a later stage during that financial year the Manager Local Economic Development acted in this post.

### Local Economics Development: P Vitshima

Termination Benefits	338 875	-
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The termination benefits as per the above refers to settlement of lawsuit which has been provided for in prior years as a result of litigation that is related to employment for section 56 managers.

### 30. Remuneration of councillors

Executive Mayor	409 011	380 780
Speaker	327 209	323 132
Chief whip	306 759	285 586
Executive members	1 985 228	1 975 067
Councillors	5 575 401	4 956 808
Councillors UIF, medical and pension funds	1 754 992	1 319 300
Other allowances (cellular phones, housing, transport, etc)	7 285 639	6 322 611
	<b>17 644 239</b>	<b>15 563 284</b>

### Remuneration of Councillors:

Councillors were compensated within the limits set by the Remuneration of Public Office Bearers Act No 20 of 1998. For details per Councillor see Appendix G



# Umzimvubu Local Municipality

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## Notes to the Annual Financial Statements

	2018	2017
<b>30. Remuneration of councillors (continued)</b>		
<b>In-kind benefits</b>		
Councillors may utilise official Council transportation when engaged in official duties. The Mayor had an official office and car.		
<b>31. Depreciation and amortisation</b>		
Property, plant and equipment	133 433 727	126 766 674
Intangible assets	646 420	624 620
<b>Total Depreciation and Amortisation</b>	<b>134 080 147</b>	<b>127 391 294</b>
<b>32. Impairment losses</b>		
<b>31.2 Impairment Losses on Financial Assets</b>		
Receivables from Non-exchange Transactions	8 144 316	3 773 986
Minus impairment of VAT Debtors (Not an expense to entity)	-	166 553
Receivables from Exchange Transactions	597 935	(336 761)
	<b>8 742 251</b>	<b>3 603 778</b>
<b>33. Finance costs</b>		
Interest on provision	319 554	291 784
Interest on employee benefits	107 480	105 204
	<b>427 034</b>	<b>396 988</b>
<b>34. Lease rentals on operating lease</b>		
Printers and equipment	709 986	-
The expenditure incurred for Operating lease relates to Xerox machines leased by the Municipality for the purposes of photocopying machines for a period of 2 years.		
The expenses recognised as an expense in the Statement of Financial Performance.		
The minimum lease payments due:		
- within 1 year	221 210	
- in 2 to 5 years	-	
<b>35. Material and stores</b>		
Consumables	2 398 663	193 654

# Umzimvubu Local Municipality

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## Notes to the Annual Financial Statements

	2018	2017
<b>36. Contracted Services</b>		
<b>Consultants and professional fees</b>		
Legal Fees	3 302 944	1 599 578
Audit Committee	729 892	468 700
Professional fees	11 932 291	9 346 409
<b>Contractors</b>		
Event promoters	1 819 246	2 586 815
Safe gaurding security	73 600	-
Repairs and Maintenance - Buildings	2 930 910	1 187 973
Repairs and Maintenance - Equipment	425 917	11 198
Repairs and Maintenance - Unspecified Assets	3 350 376	3 309 756
Debt Collection Agents	254 286	351 142
Employee Wellness	130 671	897 179
Entertainment services	1 165 914	1 261 964
<b>Outsourced</b>		
Catering	2 649 556	599 770
Traffic Fines Management	330 380	-
Security Services	7 424 432	5 746 413
Internal Auditors	493 486	633 639
Grants and subsidies paid	6 976 271	6 090 805
	<b>43 990 172</b>	<b>34 091 341</b>

### 37. Loss on disposal of assets

Management has taken a decision to dispose of a significant asset /or a group of assets and liabilities /or a component of the entity.

Proceeds on Disposal of Property, Plant and Equipment	-	135 596
Property, Plant and Equipment Disposed at Carrying Value	134 898 324	(498 232)
<b>Total Losses on Disposal of Property, Plant and Equipment</b>	<b>134 898 324</b>	<b>(362 636)</b>
Intangible Assets Disposal at Carrying Value	-	(27 614)
Net Losses on Disposal of Assets	134 898 324	(390 251)
Proceeds on Sale of Assets	-	135 596
Assets Disposed at Carrying value	134 898 324	(525 847)
<b>Total Losses on Disposal of Capital Assets</b>	<b>134 898 324</b>	<b>(390 251)</b>

Redundant furniture and equipment were sold per public auction during the year.

# Umzimvubu Local Municipality

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## Notes to the Annual Financial Statements

	2018	2017
<b>38. Operating costs</b>		
Administrative expenses	168 425	105 252
Advertising fees	659 650	720 942
Agrarian reform	7 379 207	3 933 476
Auditors fees	4 506 041	2 475 615
Awards Ceremony	310 237	300 630
Bank charges	344 407	374 967
Batho Pele Programmes	-	41 020
Books and publications	6 557	35 400
Bursaries - External	541 267	734 168
Bursaries - Internal	870 018	178 309
Career exhibition	366 432	715 723
Cleaning	1 028 261	138 638
Communication strategy	-	119 123
Community radio support	222 166	209 660
Conference fees	-	186 927
Consumables and beverages	617 131	59 906
Development programmes	-	32 300
Disaster management plan	-	138 166
Donations	114 809	-
Drivers license cards	241 661	103 808
Electricity and water purchases	1 131 280	1 239 150
Employee relations programmes	-	105 862
Entertainment	858	61 662
Environmental management	-	189 000
Equipment rental	-	414 060
Events and Programs	-	1 141 903
Fleet rental services	852 614	494 755
Food for waste	-	2 445 987
Fuel and oil	2 280 061	1 529 277
Free basic services/Low income subsidy	4 571 825	3 731 720
HIV/AIDS	-	98 140
IDT outreach	223 899	216 910
IT expenses	760 756	3 303 836
Induction program	-	2 040
Insurance - external	1 657 319	1 617 972
Intergovernmental relations	-	166 684
Internships	-	376 502
Investment Promotion	-	641 109
Marketing	806 822	1 148 739
Transport costs	1 618 084	-
Performance management system	-	49 341
Postage and courier	5 345	4 366
Pound fees	-	28 565
Printing and stationery	438 755	1 231 164
Promotional material	-	248 266
Protective clothing	998 546	613 010
Ratepayers incentive	-	323 487
ICT Schools Development Programmes	208 704	265 848
Refuse	-	494 753
Strategic planning	1 546 965	2 055 913
Strategic support and Induction	-	105 300
Subscriptions and membership fees	1 114 706	40 956
Subsistence and travelling	6 596 418	6 505 476
Sundry expenses	-	389 758
Telephone and fax	4 045 360	4 207 782
Tourism	57 700	489 970
Training	1 575 818	2 484 446
Refuse bins donated and work exposure program	-	291 020

# Umzimvubu Local Municipality

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## Notes to the Annual Financial Statements

	2018	2017
<b>38. Operating costs (continued)</b>		
Vehicle licensing	41 827	43 520
Ward committees	3 196 895	3 467 550
	<b>51 106 826</b>	<b>52 869 829</b>

The amounts disclosed above for Other Operational Costs are in respect of costs incurred in the general management of the municipality and not direct attributable to a specific service or class of expense.

No other extra-ordinary expenses were incurred.

### 39. Cash generated from operations

Surplus for the year	(137 432 052)	(19 946 411)
<b>Adjustments for:</b>		
Depreciation and amortisation	134 087 996	127 391 294
Losses on Disposal of Property, Plant and Equipment	131 668 312	390 251
Impairment deficit	8 742 251	3 603 779
Movements in operating lease assets and accruals	(3 544 614)	-
Contribution to Employee Benefits	173 370	(20 516)
Contribution to Provisions - Current	319 554	276 599
Contribution to Provisions - Non - current	-	678 149
Contribution to impairment provision	-	(723 576)
Other non-cash items	15 574	456 888
PPE donations (Non-cash)	-	(9 132 688)
Expenditure incurred from Long service awards liability	-	(205 155)
<b>Changes in working capital:</b>		
Inventories	105 969	(212 908)
Receivables from exchange transactions	(10 158 218)	(1 029 736)
Consumer debtors	(136 944)	-
(Increase) in receivables from non-exchange transactions	(4 719 985)	(7 427 200)
VAT receivable	-	2 100 575
Operating lease assets	-	(2 341 438)
Payables from non-exchange transactions	-	1 201 347
Payables from exchange transactions	4 783 977	(1 304 606)
Taxes and transfers payable (non exchange)	2 327 503	-
Unspent conditional grants and receipts	(5 408 670)	5 057 823
Increase in Operating lease liability	-	(10 488)
	<b>120 824 023</b>	<b>98 801 983</b>

### 40. Financial instruments

#### Categories of financial instruments

2018

#### Financial assets

	At fair value	At amortised cost	Total
Trade and other receivables from exchange transactions	-	3 545 982	3 545 982
Other receivables from non-exchange transactions	-	13 810 780	13 810 780
Cash and cash equivalents	47 668 725	-	47 668 725
	<b>47 668 725</b>	<b>17 356 762</b>	<b>65 025 487</b>

#### Financial liabilities

	At amortised cost	Total
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# Umzimvubu Local Municipality

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Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

	2018	2017
<b>40. Financial instruments (continued)</b>		
Trade and other payables from exchange transactions	17 678 769	17 678 769
Taxes and transfers payable (non-exchange)	2 703 917	2 703 917
	<b>20 382 686</b>	<b>20 382 686</b>

### 2017

#### Financial assets

	At fair value	At amortised cost	Total
Trade and other receivables from exchange transactions	-	3 137 622	3 137 622
Other receivables from non-exchange transactions	-	12 376 663	12 376 663
Cash and cash equivalents	45 932 159	-	45 932 159
	<b>45 932 159</b>	<b>15 514 285</b>	<b>61 446 444</b>

#### Financial liabilities

	At amortised cost	Total
Trade and other payables from exchange transactions	14 142 215	14 142 215
Taxes and transfers payable (non-exchange)	2 284 584	2 284 584
	<b>16 426 799</b>	<b>16 426 799</b>

### 41. Multi-Employer Retirement Benefit Information

The municipality makes provision for post-retirement benefits to eligible councillors and employees, who belong to different pension schemes. All councillors belong to the Pension Fund for Municipal Councillors.

Employees belong to a variety of approved Pension and Provident Funds as described below.

These funds are governed by the Pension Funds Act and are defined contribution schemes.

The only obligation of the municipality with respect to the retirement benefit plans is to make the specified contributions. Where councillors / employees leave the plans prior to full vesting of the contributions, the contributions payable by the municipality are reduced by the amount of forfeited contributions.

The total expense recognised in the Statement of Financial Performance of represents contributions payable to these plans by the municipality at rates specified in the rules of the plans. These contributions have been expensed.

#### DEFINED CONTRIBUTION SCHEMES Municipal Employees Pension Fund:

Total members to the fund during the year were 86.

Employees contribute 1.5% of their salary to the fund and the Council 18%.

Councillors Cape Joint Pension Fund:

Total members to the fund during the year were 32.

Councillors contributes 12% of their allowance to the fund and the Council 15%.

#### Cape Joint Retirement Fund:

Total members to the fund during the year were 35.

Employees contribute 7.5% & 9% of their salary to the fund and the Council 18%.

# Umzimvubu Local Municipality

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Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

	2018	2017
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### 41. Multi-Employer Retirement Benefit Information (continued)

#### Municipal Councillors Pension Fund:

Total members to the fund during the year were 12.

Councillors contributes 13.75% of their allowance to the fund and the Council 15%.

National Fund for Municipal Workers - Provident Fund: Total members to the fund during the year were 78

Employees contribute 7.5% of their salary to the fund and the Council 18%.

None of the above mentioned plans are State Plans.

### 42. Commitments

#### Authorised capital expenditure

##### Already contracted for

• Land and Buildings	-	542 443
• Infrastructure	52 010 039	60 716 961
• Community	618 284	4 971 445
• Other	375 006	2 162 812
	<b>53 003 329</b>	<b>68 393 661</b>

#### This expenditure will be financed from:

Government Grants	53 003 329	68 393 661
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This committed expenditure relates to projects under Work in progress and will be financed by available bank facilities, retained surpluses, rights issue of shares, issue of debentures, mortgage facilities, existing cash resources, funds internally generated, etc.

# Umzimvubu Local Municipality

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## Notes to the Annual Financial Statements

2018

2017

### 43. Contingencies

#### 1. Andile Menyo ( Case No .2016/2011) R Nil ( 2017: R 420,000)

The matter concerns the illegal invasion of the municipal land by Mr Menyo. We have applied for the trial date from the Registrar of the High Court. The municipality is seeking an order evicting the Defendant from its land.

#### 2. Umzimvubu Local Municipality vs Norman Liliza Nqetho and Others ( Case No. 2144/13) R 400,000 ( 2017: Nil)

The matter has since been finalised but there are people who broke into the RDP houses and took occupation. The Municipality is in the process of evicting those illegal occupants from RDP houses and hand the houses over to owners. The sheriff is awaiting instructions from the municipality. The estimated costs including sheriff's costs are R 400,000.

#### 3. Prince Madikizela - General ( Case No. 4258/2016) R 800,000 (2017: R 600,000)

In this matter the plaintiff is suing the Municipality, claiming a sum of R 600,000 arising out of malicious and unlawful arrest contumelia. The matter was before the High Court on 27 June 2018. The plaintiff asked for postponement and tendered the wasted costs. We shall apply for a trial date immediately after we receive the Plaintiff's response. The estimated legal fees are in the sum of R 200,000.

#### 4. Lindelwa Nyokana vs Umzimvubu Local Municipality ( Case No. 40/18) R 57,484 (2017: Nil)

In this matter the Plaintiff suing the Municipality for negligence. She is claiming a sum of R 37,484.55. The estimated legal fees are in the sum of R 20,000.00. The matter is still new, legal processes are still exchanged between parties.

#### 5. Mr Memela and all other unlawful occupiers. ( Case No. 34/2017) R 40,000 ( 2017: R 40,000) ERF No. 247 Kwa-Bhaca

The matter has been finalised but still awaiting court judgement.

#### 6. Ayanda Siga vs Umzimvubu Local Municipality.

Claim against the Municipality for his pension. The pleadings on the case are closed and are now awaiting to file head of arguments.

#### 7. Madodana Mayekiso vs Umzimvubu Local Municipality R 15,000 ( 2017: R 15,000)

The plaintiff is claiming the value of his goats which were sold on Auction by the Municipality after they impounded. The estimated value of the goats is R 15,000 as per the letter sent to us by the Plaintiff's attorneys. There no summons issued as yet, hence there is no court case number.

#### 8. Chrisborne Moodley and Other vs Umzimvubu Local Municipality ( Case No. EC/MTHA/RC611/2015) R 400,000 (2017: R 400,000)

The Plaintiff is claiming a sum of R 400,000. Claiming that they have been assaulted by a traffic officer employed by the Municipality. Pleadings are closed and the matter is ready for trial in Mthatha.

#### 9. Ngangelizwe Jama vs Umzimvubu Local Municipality ( Case No. 1034/2011) R 590,000 ( 2017: R 490,000)

High Court claim a sum of R 500,000 plus interest, being damages allegedly suffered by the Plaintiff due to his wrongful arrest and detention by the traffic officer acting within the lawful course and scope of his employ by the Municipality. Defendant (ULM) have applied for the Minister of Police to be joined. The matter is still pending.

#### 10. Sunset Beach Trading 299CC JV Nyamezela Consulting Engineers ( Pty) LTD ( Case No. 2308/2013) R 2,000,000 ( 2017: R 2,000,000)

Re-cancellation of contract by ULM, challenged by Sunset Beach Trading in the High Court: claim for damages allegedly suffered by the Plaintiff for loss of profit in the amount of R 1,875,126 plus interest. The matter was set down for hearing on the 30th of May 2016. The matter was postponed for the Defendant to amend its plea. The matter must proceed until it reaches its final logical conclusion. ULM has prospects of success.

#### 11. Imbumba Mzamani the Immediate Contractors vs Umzimvubu Local Municipality ( Case No. Ec/Mtha/Rc569/2013) R 212,000 ( 2017: R 212,000)

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## Notes to the Annual Financial Statements

2018

2017

### 43. Contingencies (continued)

The claim is based on non payment of a sum of R 156,097.52 plus interest for services rendered by the Plaintiff to the Municipality. ULM have prospects of success and the Plaintiff has up to date not discharged their obligation as required in terms of the Magistrate Court Rules.

### 12. Umzimvubu Local Municipality vs Millennium Development Trust ( Case No. GOM/ULM/0089/ad) R 1,500,000 ( 2017: R 1,500,000)

Mellennium Development Trust ( Litigation) Extention 6 Development/ Assisting LLM and providing legal opinion on merits of success with regard to cancellation/ termination of agreement between ULM and MDT and instructions to institute High Court legal proceedings with the assistance of Junior and Senior Counsel.

### 13. Siyabulela Ndzumo ( Case No. 84/2015) R 40,000 ( 2017: R 40,000)

Magistrate Court's claim for R 200,000 in damages suffered by the Plaintiff due to allegedly unlawful demolition of his house including furniture and a kraal by the Municipality. The Plaintiff's case was dismissed but subject to appeal, and no Court dates have been given.

### 14. Ndzameko Kene ( Case No. 87/2015) R 40,000 ( 2017: R 40,000)

Magistrate Court's claim for R 200,000 in damages suffered by the Plaintiff due allegedly unlawful demolition of his house including furniture and a kraal by The Municipality. Plaintiff's case was dismissed but subyet to appeal, and no Court dates have been given.

### 15. Tamsanqa Tuswa ( Case No. 83/2015) R 40,000 ( 2017: R 40,000)

Magistrate Court's claim for R 200,000 in damages suffered by the Plaintiff due allegedly unlawful demolition of his house including furniture and a kraal by the Municipality. The Plaintiff's case was dismissed but subject to appeal, and no Court dates have been given.

### 16. Yalela Ntintili ( Case No. 83/2015) R 40,000 ( 2017: R 40,000)

Magistrate Court's claim for R 200,000 in damages suffered by the Plaintiff due allegedly unlawful demolition of his house including furniture and a kraal by the Municipality. The Plaintiff's case was dismissed but subject to appeal, and no Court dates have been given.

### 17. Rose Jakuja ( Case No. 82/2015) R 40,000 ( 2017: R 40,000)

Magistrate Court's claim for R 200,000 in damages suffered by the Plaintiff due allegedly unlawful demolition of his house including furniture and a kraal by the Municipality. The Plaintiff's case was dismissed but subject to appeal, and no Court dates have been given.

### 18. Gideon Kondlo ( Case No. 85/2015) R 40,000 ( 2017: R 40,000)

Magistrate Court's claim for R 200,000 in damages suffered by the Plaintiff due allegedly unlawful demolition of his house including furniture and a kraal by the Municipality. The Plaintiff's case was dismissed but subject to appeal, and no Court dates have been given. There was a High Court application for interdict to declare the Municipality's decision to prioritise electrification of Maxhegwini village over Sivumela village unlawful and for the decision to be set aside. The matter is subject to appeal at the Supreme Court of Appeal.

### 19. Mzolisi Gqunu ( Case No. 133/2015) R 80,000 ( 2017: R 80,000)

This matter came before Court on the 27th of August 2015 for an interdict application that was brought on urgent basis by applicants who were interdicting the Municipality from stopping applicant's in their building Badibanise location, Lubhacweni Administrave Area, Kwa-Bhaca.

### 20. Ex Parte Application ( Case No. 17/2018)

Notice of sale of impounded vehicles.

### 21. Umzimvubu Local Municipality vs Mbali Rural Developers CC ( Arbitration) R 220,601 ( 2017: R 220,601)



# Umzimvubu Local Municipality

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## Notes to the Annual Financial Statements

2018

2017

### 43. Contingencies (continued)

Enforcing an arbitration award and have been endeavouring to attach movables to satisfy the claim. However, the Writ has been misplaced by the office's Sheriff of Kokstad and we are taking the necessary steps to re-issue the Writ.

### 44. Related party transactions

All related party transactions are conducted at arm's length, unless stated otherwise.

#### 44.1 Interest of Related Parties

Councillors and/or management of the municipality have relationships with businesses as indicated below:

Name of Related Person and Designation	Description of Related Party Relationship
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Canca Nokwazi (Official)	Owner (Husband) of Litto Trading Enterprise
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Dikwayo Siphokazi (Official)	Owner (Husband) of DMMP Trading CC
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Ntshengulana Mygirl (Official)	Owner (Husband) of Mizestozz Trading Enterprise
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Madlanga Lindiswa (Official)	Owner (Brother) of Mpi Attorneys
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Mr Mdzinwa (Chief Whip)	Owner (Wife) of 2nd World BnB
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Madlanga Lindiswa (Demand Officer)	Owner (Brother) of SOC Cleaning
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### Related party balances

L Madlanga is the Procurement officer at Umzimvubu Local Municipality, while the owner of Madlanga attorneys is her brother.

N Manciya- Canca is the Disaster officer for Umzimvubu Local Municipality, while the owner of Litto trading is her husband.

N Mdzinwa is the Chief Whip of Umzimvubu Local Municipality, while the owner of Second World Bed and Breakfast is his wife.

N Zembe is the Senior manager Special programmes and communications of Umzimvubu Local Municipality, the owner of Glenhope trading is her husband.

### 45. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

### 46. Unauthorised expenditure

Current year

130 431 079

-

Unauthorised expenditure pertains primarily to non cash items relating to the revaluation of assets project which yielded larger depreciation than budgeted, as well as the loss on transfer of electrical assets to Eskom and Impairment of Debtors. The investigation was carried out by MPAC and subsequently submitted to Council for write-off.

### 47. Fruitless and wasteful expenditure

To management's best knowledge instances of note indicating that Fruitless and Wasteful Expenditure was incurred during the year under review were not revealed.

### 48. Irregular expenditure

To management's best knowledge instances of note indicating the Irregular Expenditure was incurred during the year under review were not revealed.

# Umzimvubu Local Municipality

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## Notes to the Annual Financial Statements

	2018	2017
<b>48. Irregular expenditure (continued)</b>		
Opening balance	60 184 998	-
Add: Current year Reg 32	7 797 910	-
Add: Current year Reg 29	124 403 724	60 184 998
Add: Current year Reg 36	4 059 341	-
Less: Amounts written off	(196 445 973)	-
	<b>-</b>	<b>60 184 998</b>

The amount disclose in the prior year amounts to R56 635 749 however certian expenditure was incidentally omitted which amounts to R3 549 292 and the irregular expenditure register has been updated.

Current year Regulation 32 and 36 are under investigation by M PAC, Regulation 29 has been written off by Council.

### 49. Additional disclosure in terms of Municipal Finance Management Act

#### 49.1 Contributions to organised local government

Council Subscriptions	704 826	754 758
Amount Paid - current year	(704 826)	(754 758)
	<b>-</b>	<b>-</b>

#### 49.2 Audit fees

Opening balance	25 609	-
Current year subscription / fee	3 610 826	2 478 760
Amount paid - current year	(3 636 435)	(2 453 151)
Accrual amount	672 902	-
	<b>672 902</b>	<b>25 609</b>

#### 49.3 PAYE and UIF

Current year subscription / fee	14 972 082	12 148 955
Amount paid - current year	(14 972 082)	(12 148 955)
	<b>-</b>	<b>-</b>

#### 49.4 Pension and Medical Aid Deductions

Current year subscription / fee	13 252 201	11 981 770
Amount paid - current year	(13 252 201)	(11 981 770)
	<b>-</b>	<b>-</b>

#### 49.5 VAT

VAT receivable	5 768 651	4 352 684
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VAT output payables and VAT input receivables are shown in note .

All VAT returns have been submitted by the due date throughout the year.

# Umzimvubu Local Municipality

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Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

	2018	2017
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### 49. Additional disclosure in terms of Municipal Finance Management Act (continued)

#### 49.6 Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2018:

30 June 2018	Outstanding more than 90 days R	Total R
Councillor Garane	- 1 404	1 404

30 June 2017	Outstanding more than 90 days R	Total R
Councillor Mdzinwa	- 7 689	7 689
Councillor Garane	- 6 172	6 172
Councillor Dangisa	- 3 630	3 630
	- 17 491	17 491

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## Notes to the Annual Financial Statements

	2018	2017
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### 50. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the and includes a note to the annual financial statements. The following deviations occurred as a result of it being impracticable to follow the supply chain management processes.

Repairs and Maintenance	27 304	-
Communication and advertising	202 800	304 284
Stationery and printing	45 000	4 568 275
	<u>275 104</u>	<u>4 872 559</u>

### 51. Budget differences

#### Material differences between budget and actual amounts

##### Financial Performance

Explanation of Variances between Approved Budget and Actual : Reasons for Variances greater than 10% between Approved Budget and Actual Amount on the various items disclosed in the Statement of Financial Performance are explained below:

##### Service charges

Implementation of supplementary valuation roll & tariffs. A reconciliation of properties that receive refuse collection service has resulted in increased number of households that are billed for the service.

##### Rental of facilities and equipment

Outstanding amounts from previous year was received during the year and increased by operating lease straight lining.

##### Interest received (trading)

It was budgeted only for the portion of interest expected to be paid by debtors and an increased as a result of growing debtors/ non payment.

##### Other revenue

The municipality received in the current year an award of R 250 000 for the cleanest town. On retentions for certain projects we used municipal resources to do the snag list which resulted in a saving of R 495 000 that was recognised as revenue

##### Interest received - investment

Budget included funds for construction of new municipal offices which have not commenced yet amounting to R16 million.

##### Government grants & subsidies

Electrification Project amounting to R 129 000 000 will be handed over to by the end of the financial year, therefore increased the revenue acknowledged from said grants.

##### Fines, Penalties and Forfeits

Budget was based on historical actual collection but more traffic fines were issued during the year under review.

##### Personnel

HOD's have not yet incremented for 2018/19 financial year.

##### Remuneration of councillors

The increment implemented was less than budgeted for cellphone allowance as per Determination of Councillors Remuneration Gazette.

##### Depreciation and amortization

The increase is due to the revaluation of assets done in the current year.

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## Notes to the Annual Financial Statements

2018

2017

### 51. Budget differences (continued)

#### Material and Stores

There has been an increase in the expenditure incurred on Material and stores because of the MSCOA set up, thus expenditure that would have generally deemed to be General Expenditure is now deemed to be Material and stores under MSCOA.

#### Contracted Services

There has been an increase in the expenditure incurred on Contracted service because the MSCOA set up is such that all expenditure that is out-sourced is deemed to be a contracted service, thus expenditure that would have generally deemed to be General Expenditure is now deemed to be contracted services under MSCOA.

#### General Expenses

The decrease is on account of remapping of Contracted services under MSCOA that now sit under Contracted services above. Implementation of cost containment measures.

### Financial Position

#### Inventory

Budgeted as per historical actuals and an amount of R450 000 was transferred to investment property

#### Receivables from exchange transactions

receivables were budgeted in on category i.e non exchange

#### Receivables from non- exchange transactions

underspending is due to combination of budget for receivables

#### VAT Receivables

Not budgeted for due to historical actuals

#### PPE

Increase is due to revaluation of assets

#### Investment Property

Increase is due to revaluation of assets

#### Payables from Exchange

underbudgeted anticipated to decrease the creditors by year end

#### Payables from Non Exchange

Not budgeted for due to historical actuals

#### Unspent conditional Grants

Did not budget for unspent as we anticipated that the grants will be fully utilised.

### Statement of budget comparison- Cashflow

#### Property Rates

Rates are budgeted on billing yet cashflow is on actual basis

#### Service Charges

Refuse is budgeted on billing yet cashflow is on actual basis

#### Other Revenue

Revenue collection is more than anticipated

#### Interest Income

budget includes the cashback reserves to fund the Municipal Offices

#### Suppliers and Employees

decrease is due to implementation of cost containment circular 82

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## Notes to the Annual Financial Statements

2018 2017

### 51. Budget differences (continued)

Capital Assets

Decrease is due to the slow progress of construction processes for municipal offices by IDT

#### Original budget vs Adjustment Budget

Interest earned - external investments

budget includes the cashback reserves to fund the Municipal Offices

Fines, penalties and forfeits

Budget was based on historical actual collection and tickets fines issued

Transfers and subsidies

Increase is made of the loss on disposal of assets

Other materials

Increase is made of reclassification of expenditure as per mscoa

Contracted services

Increase is made of reclassification of expenditure as per mscoa

Transfers and subsidies - capital

Increase is due to the additional funding received for electrification

Roads Infrastructure

Decrease is due to the slow progress of construction processes for municipal offices by IDT

Electrical Infrastructure

Increase is due to the additional funding received for electrification

### 52. Prior-year adjustments

Presented below are those items contained in the statement of financial position, statement of financial performance and cash flow statement that have been affected by prior-year adjustments:

#### Statement of financial position

2017

	As previously reported	Correction of error	Restated
Property, plant and equipment	540 070 037	633 636 111	1 173 706 148
Investment Property	19 961 575	121 458 048	141 419 623
Payables from exchange transactions	(11 413 736)	(2 728 479)	(14 142 215)
Provisions	(10 477 991)	7 120 449	(3 357 542)
Inventory	957 909	(634 375)	323 534
Opening Accumulated surplus	(525 702 122)	(853 450 964)	(1 379 153 086)
	<b>13 395 672</b>	<b>(94 599 210)</b>	<b>(81 203 538)</b>

#### Statement of financial performance

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## Notes to the Annual Financial Statements

2018 2017

### 52. Prior-year adjustments (continued)

2017

	As previously reported	Correction of error	Re-classification	Restated
Income from agency services	1 847 180	-	(144 261)	1 702 919
Licenses and permits	2 241 112	-	144 261	2 385 373
Sale of goods	-	-	615 212	615 212
Operating income	2 159 963	-	(615 212)	1 544 751
Employee related costs	56 409 344	3 357 725	-	59 767 069
Depreciation and amortization	36 136 746	91 254 548	-	127 391 294
Impairment losses	2 880 203	723 575	-	3 603 778
Finance costs	783 353	(386 365)	-	396 988
Material and stores	-	-	193 654	193 654
Contracted services	7 231 781	-	26 859 553	34 091 334
Actuarial gain	-	80 056	-	80 056
Operational costs	68 103 253	(533 619)	(14 699 805)	52 869 829
Grants and subsidies paid	4 288 588	-	(4 288 588)	-
Government Grants (Conditional)	3 555 887	-	(3 555 887)	-
Repairs and Maintenance	4 405 637	103 290	(4 508 927)	-
	<b>190 043 047</b>	<b>94 599 210</b>	<b>-</b>	<b>284 642 257</b>

#### 52.1 Prior period errors analysis

During the current financial year the municipality performed a complete verification and reconciliation of all municipal assets. To ensure completeness of Property Plant and Equipment a full property reconciliation was performed. This resulted in a number of corrections being done

##### The adjustment on infrastructure and buildings occurred due to:

The asset register was updated for all assets under the control of the municipality. Components identified that was purchased prior to GRAP adoption date (30 June 2009) was valued using the Depreciated Replacement cost method in line with Directive 7. This resulted in a change in the value of Infrastructure. Depreciation was recalculated on all assets based on updated completion dates and condition assessments. The asset register also componentised as required by GRAP and estimated useful life's updated accordingly. The landfill site provision was updated and corrected by a professional valuer. See the table above for the financial impact on the Statement of Financial Position

##### The adjustment on work in progress assets occurred due to:

The work in progress register was updated with the correct completion dates and assets appropriately transferred. See the table above for the financial impact on the Statement of Financial Position

##### The adjustment on land occurred due to:

Reclassification of Expenditure - 2016/17, As a result of the above adjustment in the 15/16 year, depreciation was recalculated on the corrected assets and an adjustment to the 2016/17 depreciation amount was passed. R787,240. See the table above for the financial impact on the Statement of Financial Position

##### The adjustment on Investment property occurred due to:

A complete reconciliation was performed on property of the municipality based on the latest deeds data, valuation roll and lease register. See the table above for the financial impact on the Statement of Financial Position

##### The adjustment on Landfill site provision occurred due to:

Due to the complete restatement of the asset register a land fill site provision report was obtained from a professional value. The provision was updated accordingly. See the table above for the financial impact on the Statement of Financial Position

##### The adjustment on Trade receivables from exchange transactions occurred due to:

A traffic fine correction was done as an incorrect traffic fine was erroneously raised several years ago. This has been written off. Accordingly, the traffic fine receivable gross balance and traffic fine impairment balance within the trade receivables from non-exchange transactions were adjusted, however, there was no net impact on this line item.

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## Notes to the Annual Financial Statements

2018

2017

### 52. Prior-year adjustments (continued)

#### **The adjustment on Inventory and Payables from exchange transactions occurred due to:**

1. An accrual being incorrectly raised in the 2016/17 financial year and accordingly reversed from inventory and payables
2. A reclassification of erf's held for sale previously disclosed under Inventory but now reclassified under Investment property. See the table above for the financial impact on the Statement of Financial Position

#### **The adjustment on Opening Accumulated surplus occurred due to:**

This is an aggregate change of all effects prior to 1 July 2016, relating to verification and adjustments to Property, plant and equipment, Investment property, Inventory and Provisions. See the table above for the financial impact on the Statement of Financial Position

#### **The change in Employee related costs occurred due to:**

1. Correction passed for the raising of a bonus accrual in the prior year which was previously not raised
  2. Correction passed for the reclassification of workman's compensation previously reported under Operating expenses.
- See the table above for the financial impact on the Statement of Financial Performance

#### **The change in Depreciation and amortization occurred due to:**

A complete verification and reconciliation of all municipal assets as described in the corrections to PPE above. See the table above for the financial impact on the Statement of Financial Performance

#### **The change in impairment occurred due to:**

A complete verification and reconciliation of all municipal assets as described in the corrections to PPE above. See the table above for the financial impact on the Statement of Financial Performance

#### **The change in Finance costs occurred due to:**

A complete verification and reconciliation of all municipal assets as described in the corrections to PPE above, which had an effect on recalculating the landfill site valuation and subsequently the Finance costs. See the table above for the financial impact on the Statement of Financial Performance

#### **The change in Operating expenses occurred due to:**

Correction passed for the reclassification of workman's compensation previously reported under Operating expenses. See the table above for the financial impact on the Statement of Financial Performance



# Umzimvubu Local Municipality

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## Notes to the Annual Financial Statements

2018

2017

### 52. Prior-year adjustments (continued)

#### 52.2 Reclassifications analysis

**The change in Income from Agency services and Licenses and Permits occurred due to:**

Reclassification as per the Municipal Standard Chart of Accounts (mSCOA). Items from Income from Agency services where recalssified to Licenses and Permits. See the table above for the financial impact on the Statement of Financial Performance

**The change in Sale of goods and Operating income occurred due to:**

Reclassification as per the Municipal Standard Chart of Accounts (mSCOA). See the table above for the financial impact on the Statement of Financial Performance

**The change in Material and stores occurred due to:**

Reclassification as per the Municipal Standard Chart of Accounts (mSCOA). See the table above for the financial impact on the Statement of Financial Performance

**The change in Contracted services occurred due to:**

Reclassification as per the Municipal Standard Chart of Accounts (mSCOA). See the table above for the financial impact on the Statement of Financial Performance

**The change in Operating expenses occurred due to:**

Reclassification as per the Municipal Standard Chart of Accounts (mSCOA). See the table above for the financial impact on the Statement of Financial Performance

**The change in Grants and subsidies paid occurred due to:**

Reclassification as per the Municipal Standard Chart of Accounts (mSCOA). See the table above for the financial impact on the Statement of Financial Performance

**The change in Government grants (Conditional) occurred due to:**

Reclassification as per the Municipal Standard Chart of Accounts (mSCOA). See the table above for the financial impact on the Statement of Financial Performance

**The change in Repairs and maintenance occurred due to:**

Reclassification as per the Municipal Standard Chart of Accounts (mSCOA). See the table above for the financial impact on the Statement of Financial Performance